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China's Chernobyl?
A health minister fired. A cover-up admitted to. Is China headed in a new direction? ... More on this week's lead article

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Politics this week

Apr 24th 2003
From The Economist print edition

Garnering support

AP

Jay Garner, the retired American general appointed by President George Bush to be the American civil administrator in **Iraq**, arrived in the country. He was greeted coolly in Baghdad, where essential services, after the bombing and the looting, are only starting to be restored, but enthusiastically in northern Iraq.

See article: Looking to a new Iraq

Iraq's **Shia** Muslim majority celebrated their new political freedom with a march to Karbala to mark an important event in their religious calendar. Many also staged protests against America's continuing presence in Iraq.

See article: Postwar Iraq

France, which had vehemently opposed the war in Iraq, surprised others on the UN Security Council, by saying it was ready to suspend **sanctions** on the country. Russia had been arguing that these should be kept in place, as a way of insisting that UN weapons inspectors be allowed back to seek out weapons of mass destruction. America says it now bears responsibility for finding Iraq's weapons, and wants sanctions removed completely. Meanwhile America also let it be known that it was reviewing its relations with France in the light of its opposition to the war, both in NATO and at the UN.

See article: A new American foreign-policy establishment

As a constitutional deadline was running out, Yasser Arafat and his prime minister, **Mahmoud Abbas**, reached agreement over the Palestinian Authority's new government. Mr Arafat backed down over the inclusion of Muhammad Dahlan to be in charge of security, but his supporters claimed that his relevance had been reasserted.

See article: Palestine's new government

Olusegun Obasanjo was re-elected as president of **Nigeria** after a poll his main rival, Muhammdu Buhari, called “the most rigged in history”. Mr Obasanjo told Mr Buhari not to be such a bad loser.

See article: Nigeria's chaotic election

Winnie Madikizela-Mandela, the ex-wife of Nelson Mandela, was convicted of theft and fraud in a South African court.

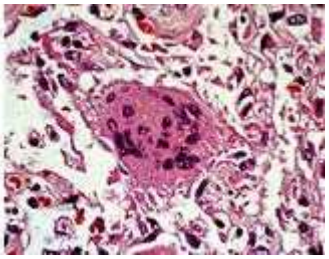
A general strike brought **Zimbabwe** to a standstill. Protestors objected to a 210% hike in the price of petrol and the general misrule of President Robert Mugabe.

China's late reaction

Reuters

In a move to try to halt the global spread of SARS, the World Health Organisation advised travellers against visiting Beijing and a number of other places in **China**. All schools in the Chinese capital were closed for two weeks; the week-long May Day holiday was cancelled; and people were told

they would be quarantined if they had contact with any SARS patients. Officials also began to update figures for cases, suspected infections and deaths at daily public briefings. The flu-type disease, first seen in China, has infected about 4,200 people worldwide, killing 251.



See article: The dragon wheezes

Officials in Toronto reacted with fury after the WHO issued a travel warning for **Canada's** largest city where SARS has killed 16. They claimed the outbreak was confined to the city's hospitals; others were not so sure.

See article: The outbreak in Canada

James Kelly, an American official, held talks in Beijing with a **North Korean** negotiator, Li Gun, in a move to try to persuade the North to end its nuclear-arms programme. China, a participant in the talks, called them beneficial.

See article: The growing threat from North Korea

Two ferries sank in storms in **Bangladesh**, killing 134 people. About 100 people died earlier in the month in two other ferry disasters.

A trial began in **Indonesia** of Abu Bakar Basyir, an Islamic cleric accused of plotting to overthrow the legitimate government in order to establish a Muslim state.

See article: Islam in Indonesia

A senior judge was shot dead in Phnom Penh, raising fears of a wave of violence in the run up to **Cambodia's** general election due in July.

Reserving judgment

Alan Greenspan, chairman of America's Federal Reserve, said he would be willing to accept George Bush's offer of a **fifth term** in the job after his current term runs out in June 2004.

See article: Replacing Alan Greenspan

Schoolchildren, soldiers and other groups were again allowed to **visit the White House**, as post-Iraq Washington began to relax.

Unconventional

Valéry Giscard d'Estaing, president of the European Union's **constitutional convention**, produced his proposals for the institutions of the future, enlarged EU. Notably: a long-term president for the council of ministers; a European commission cut to 15 full members; a new European congress, two-thirds of it made up of members of national parliaments. The commission and the existing European Parliament sent up howls of rage.

See article: Giscard d'Estaing's plans to reform the EU

With **Britain's** finance minister, Gordon Brown, due soon to produce his (probably “not yet”) verdict on the five economic tests for British adoption of the euro, ministers favouring adoption of the currency pushed for cabinet discussion of the issue, hoping to promote a referendum before the next election.

Facing difficult local and regional elections on May 25th, **Spain's** People's Party government announced measures to help mothers return to employment, and to encourage the building of rented housing and the creation of more small businesses.

The Turkish-Cypriot and Greek-Cypriot authorities, in a gesture to foster trust across the divided island of

Cyprus, temporarily opened crossing-points between the communities' two zones. Several thousand islanders took the opportunity to visit their old homes.

Sergei Yushenkov, the leader of a small Russian party, Liberal Russia, was shot dead outside his home in Moscow—the tenth member of the Duma to be murdered in ten years: a contract killing, almost certainly, of (for once) an honest politician.

See article: Russia's murky politics

Border disputes

AP

Álvaro Uribe, **Colombia's** president, said that his Venezuelan counterpart, Hugo Chávez, had agreed to help stop Colombian guerrillas and rightist paramilitaries from raiding Venezuelan territory. The two men met following weeks of rising tension over border incursions.

The UN Human Rights Commission approved narrowly a resolution to send an outside investigator to look at human rights in **Cuba**. The island's communist government said it would refuse to admit the investigator.

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Business this week

Apr 24th 2003
From The Economist print edition

Barely airborne

American Airlines narrowly avoided Chapter 11 bankruptcy after its three main unions voted to accept a pay-cut package. Union acquiescence turned to outrage after details of generous executive compensation emerged. The world's biggest airline saw its shares plunge after union groups vowed to rerun the vote. AMR, parent of American Airlines, also announced a quarterly loss of $1 billion.

Southwest Airlines made a profit of $24m in the first quarter in a period of abject gloom for most of America's airlines.

Boeing's first-quarter losses narrowed to $478m compared with $1.3 billion a year ago. Although the market for commercial aircraft languished, the company's military arm made useful gains.

Funny business

Viacom announced profits of $443m in the first quarter. The American broadcasting giant celebrated by paying $1.2 billion for the 50% of Comedy Central, a cable-TV network, that it does not already own. The seller, **AOLTime Warner**, also reported profits for the quarter (of $396m), reversing a loss of more than $50 billion a year ago (the result of massive write-downs).

Kmart's reorganisation plan met the approval of an American judge, allowing the retailer to emerge from Chapter 11 bankruptcy after 15 months. But doubts remain about its ability to survive the tough competition from America's other discount retailers.

AT&T, America's leading long-distance phone company, rang up a profit of $571m in the first quarter, comfortably topping analysts' expectations, after losing $975m a year ago.

America's Department of Defence said that it was reconsidering the use of a product supplied by Keimfarben, a German company, to **paint the Pentagon** after complaints by a patriotic congressman for Ohio (prompted by Germany's attitude to the war in Iraq) and an Ohio paint firm with designs on the contract.

In security

Chubb's shares jumped by 30% after the British security company revealed that it was in takeover talks with United Technologies, an American engineering firm. Its shares fell back sharply after it then issued a surprise warning that profits would fall far below expectations this year.

Corus named Philippe Varin as its new chief executive. He replaces Tony Pedder, who was forced to quit last month as the boss of the Anglo-Dutch steelmaker after dismal results and the deterioration of relations between the firm's British and Dutch wings. Corus's battered share price jumped on the news.

Nissan Motor confirmed its place among the world's most profitable carmakers four years after its rescue by Renault. Operating profits are expected to rise by 51% for the year to March compared with the previous year to ¥737 billion ($5.9 billion); Nissan said that it would make even more in the next 12 months.

Sony, however, did less well. The Japanese electronics company lost ¥111 billion ($934m) in the latest

quarter.

Yukos, Russia's second-biggest oil company, said that it would buy **Sibneft**, the fifth-largest, in a deal worth up to $15 billion. The merged company will become the world's fourth-largest privately owned oil producer.

See article: A bad Russian oil deal

Pool party

Germany's five biggest banks—Deutsche Bank, HypoVereinsbank, Dresdner Bank, Commerzbank and DZ Bank—announced a plan to pool and securitise loans worth some *euro*50 billion ($55 billion). The banks will use the cash raised to repair their battered balance sheets. Removing the loans from the banks' books will allow them to make fresh loans. Deutsche Bank gave warning of a first-quarter loss after big charges related to the sinking value of investments.

See article: German banks prepare a big loan sell-off

OPEC ministers attended an emergency meeting in Vienna to discuss cutting oil supplies to prevent a crash in the oil price as economic growth slows and demand falls.

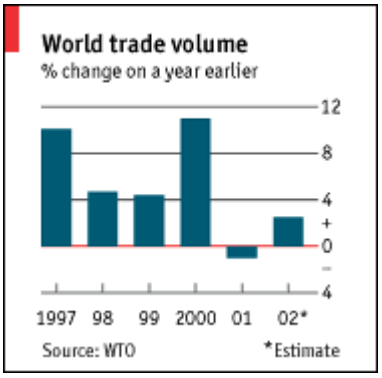
See article: Ali Naimi and the problems facing OPEC

Federal prosecutors charged **Frank Quattrone** with obstructing justice and destroying evidence. The fallen star telecoms analyst is accused of ordering the destruction of files to hinder investigations into CSFB's role in “spinning” hot technology share issues to favoured clients of the investment bank.

Slim tradings

World trade picked up a little, growing by 2.5% in 2002 after a decline the year before (the first fall in 19 years). Healthy demand in America and Asia's big economies offset sluggish activity in Europe and Latin America. The war in Iraq, reaction to the SARS virus and economic uncertainty look like restricting trade growth to less than 3% this year.

See article: The world economy



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China and SARS

China's Chernobyl?

Apr 24th 2003
From The Economist print edition

A health minister fired. A cover-up admitted to. Is China headed in a new direction?

Get article background

WHEN news of the catastrophe broke, it was because scientists in free, neighbouring countries had detected what the Communist authorities knew about, but had tried to conceal. With a leader of just a few months' standing in power, political uncertainty reinforced the tendency of party apparatchiks to conceal bad news, not just from the outside world but from each other. But contamination is no respecter of boundaries. In the end, with the world beating at their doors in search of answers, the Communists were forced to come clean. Obfuscation turned to breast-beating, bureaucratic heads rolled, and suddenly the press was permitted to probe and criticise its masters. And what happens next?

What indeed? The version of events just given fits not just China, which this week started to face up to the extent of its failure to control the spread of the disease SARS, a previously unknown but potentially deadly respiratory virus that is now taking a widening toll worldwide (see article). It was also the response of the Soviet Union to the explosion of a nuclear reactor at Chernobyl in April 1986. What happened next in the Soviet Union was pretty spectacular. The explosion, which took place only a year after Mikhail Gorbachev came to power, is now regarded as a great accelerator of the programmes of *glasnost*and *perestroika*, of “openness” and “restructuring”. These helped, just three years later, to bring down first the Soviet empire, then the Soviet Union itself and the Communist Party. So is SARS China's Chernobyl; or will the chain-reaction this time be controlled?

Caution is in order: there are some obvious differences between China in 2003 and the Soviet Union in 1986. First, “socialism with Chinese characteristics” is an economic success story—China has just posted a growth rate of 9.9% for the first quarter of this year—whereas Soviet communism was a bust. True, China's economic development is lopsided, the figures dubious, the risk of social tension palpable. But there is simply no comparison with the dilapidated, aftershave-swigging wreck over which Mr Gorbachev presided. Second, China has already had one experiment with political reform, the 1989 Tiananmen Square student protests, which were ruthlessly suppressed. Under Mr Gorbachev, reform was already being encouraged, albeit haltingly: *glasnost* and *PERESTROIKA* had been launched just before Chernobyl, not in response to it. And China does not appear to be in any danger of losing, or even fighting, a war; the late 1980s had marked the humiliation of Russia's army in Afghanistan. For all these reasons, China's new leaders are no doubt hoping they can ride out the storm unleashed by their own incompetence and duplicity.

Yet it would be a mistake to assume that nothing will change. The events of the last few days have been momentous. The government has been forced to admit that it has been lying, understating the number of SARS cases in Beijing more than tenfold. This raises big questions about the reliability of its other figures, such as the unbelievable assertion that there are only two cases in all of teeming Shanghai. By being forced to resign as health minister, Zhang Wenkang has made history of a kind. He is the first minister since the Communists seized power in 1949 to be sacked mid-crisis on a policy matter. (The mayor of Beijing, Meng Xuenong, went too: the better-connected governor of Guangdong province, where SARS started, remains in place.)

There have been other upheavals, of course: the sacking, and subsequent trial, of Chen Xitong, an earlier mayor of Beijing, on corruption charges; the ousting of Zhao Ziyang as general secretary of the party in the power struggle that accompanied the tumult of 1989. But this is a bit different: minister presides

over policy bungle; bungle is exposed, to public outcry; minister resigns to take the rap. It almost looks like the way that politics works in a democratic, accountable country. Chinese people might start to get a taste for it.

The case is significant, too, in that it marks the first sign of political innovation from China's new leadership. Just as in Russia in 1986, China has an untried man in charge. Hu Jintao, who took over as China's president last month, has been party boss only since November. Like Mr Gorbachev then, he is feeling his way. Unlike Mr Gorbachev, he has a very-much alive predecessor, Jiang Zemin, keeping an eye on him from his perch as commander-in-chief of China's army. On March 28th, Mr Hu said that the media ought to spend less time reporting on official meetings, and more on matters that people care about.

That could be a signal that times are changing. Or again, it could be an aberration. The real Mr Hu may be the one who has been a party to the whole sorry saga since last November, when the first cases of SARS occurred in Guangdong, but were hushed up. It took until this month for inspectors from the World Health Organisation (WHO) to be allowed to visit China. Mr Hu himself has yet to offer any form of public apology. And lest the press be tempted to run away with the story, and start scrutinising too much, they will doubtless recall that it was on Mr Hu's watch that a relatively outspoken Guangdong newspaper, *21st Century World Herald*, was closed down for daring to print heretical opinions about the need for a bit more political reform.

Teeth for the WHO

The political ramifications of SARS in China are intriguing but, for most people, it is the medical ones that matter more. Put bluntly, can Asia and the world have any confidence that China will grapple properly with SARS? More difficult yet more important, can it take steps to ensure that it does not continue to cook up nasty viruses to unleash? Though it is not certain where the great flu pandemic of 1918 started, many of the lesser flu epidemics that now appear every couple of years are known to originate in China. There are reasons for this: people living cheek by jowl, and in close proximity to pigs and poultry, animals from which this type of virus is thought to jump to humans. China is, simultaneously, a very poor, very densely populated and, these days, very globally-connected country. This is a tricky combination. Then there is the climate of secrecy over health matters. These are often classed as state secrets. Local authorities were not allowed to discuss the SARS problem openly until authorised to do so by the State Council.

Were SARS, instead of being a natural virus, a man-made weapon of mass destruction, there would be a framework for dealing with it. Nuclear and chemical weapons are subject to stringent inspection regimes. Despite the extra difficulties, there is a good case for beefing up rules for tracking diseases. Air travel links any city on earth with every other city in 24 hours or so, so there are clear global interests at stake. Had it acted more responsibly, China could perhaps have nipped SARS in the bud, running the risk of some economic pain in the short term, but saving itself from far greater damage later on. Membership of the WHO ought to carry duties as well as benefits. Members could perhaps be required to pledge that WHO scientists be given an absolute right of access to their hospitals and health ministries at the first sign of trouble.

This sort of intrusion would doubtless be difficult for a government as secretive as China's to accept. But learning to live with that kind of affront is part and parcel of what being a full and responsible member of the international community entails. In its belated and still only partial acceptance of its responsibilities, perhaps China is starting to understand this, and to become a more normal country.

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North Korea

Point of no return

Apr 24th 2003
From The Economist print edition

This week's talks are the best chance for peace—and maybe the last

TRUST North Korea's leader, Kim Jong Il, to turn any diplomatic opportunity radioactive. Talks taking place between America, North Korea and China this week were never expected to be more than exploratory. But coming after North Korea's admission that it was secretly enriching uranium for a second nuclear programme (the first involved illicitly reprocessing plutonium), and its withdrawal from the Nuclear Non-Proliferation Treaty, they are at least an opportunity to end North Korea's destabilising bomb-tinkering. One breakthrough had already happened before they started. China's readiness to sit at the table means that Mr Kim will hear from his semi-friend and economic supporter, not just hated America, that his weapons-building has to stop. Yet North Korea's eve-of-meeting talk of reprocessing more plutonium casts a new cloud over the diplomatic effort.

A statement by North Korea, since withdrawn, that it was already reprocessing 8,000 spent fuel-rods that had previously been stored under international supervision may have been a result of a translation error (suggesting that Mr Kim would have done better to abduct a few English-speakers, not just the Japanese he has owned up to), or a statement of fact. Ominously it followed an end to all pretence that North Korea's nuclear efforts were for “peaceful” purposes. Mr Kim now says openly that he wants a “powerful” deterrent.

North Korea has made empty threats before. But there are two reasons for worrying that even an agreement to meet again—the most that can be hoped for from this week's talks—will do little to check Mr Kim's nuclear ambitions. One is his brazen shredding of all previous agreements. America rightly says that it is no longer enough for Mr Kim simply to refreeze his plutonium-making. It insists that if he is to win the massive help he needs for his clapped-out economy, he must dismantle both his uranium and his plutonium programmes “completely, verifiably and irreversibly”. North Korea and America are thus further apart on the nuclear issue than ever.

Meanwhile, those who still argue that North Korea will eventually trade in its nuclear options when the price is right have a new problem to reckon with. When there was only North Korea's first plutonium-making project to account for, the job would have been hard enough. Should Mr Kim start reprocessing his stored spent fuel, he will not only quickly have more bomb-usable plutonium, he will also have destroyed the most reliable evidence about his nuclear past. And even if he doesn't touch the spent fuel, no one knows for sure where North Korea has been enriching uranium, making verification extremely difficult. North Korea is now perilously close to the point where its own actions will make further talks pointless.

Time is running out

Which is where not only China, but also South Korea, Japan and Russia, come in. Mr Kim shows every sign of thinking he can hang on to some of his nuclear gadgetry and still squeeze enough economic help from his anxious neighbours to survive. They need to disabuse him of that. He has refused to have all of them at the same negotiating table, but they should all be conveying the same message: if North Korea is ready to give up its bomb-making, they stand ready to provide aid and economic assistance, and to join in providing the security assurances that Mr Kim has demanded. But security cuts both ways. If he keeps on threatening the neighbourhood, then Mr Kim needs to be told by all that he should instead

expect isolation and containment.

North Korea has long said it would view even economic sanctions as an act of war, making China and South Korea especially reluctant to call its bluff. But their patience cannot be boundless. The crisis has already weakened South Korea's economy. And China is alarmed at both North Korea's reckless behaviour—earlier this year it tried to force down an American reconnaissance plane over international waters—and its impact on Japan. There North Korea's missile and nuclear threats have encouraged closer work with America on missile defences, and prompted thinking about new weapons Japan might need. Some politicians have wondered out loud whether the country ought to have a countering nuclear option of its own. Which all points to the wider danger: that if Mr Kim gets away with his bombs, others around the world, out of fear or fashion, will be encouraged to try.

North Korea is a threat to peace and stability. The talks that started this week are the best hope of dealing with that threat peacefully. But they are also probably the last one.

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Alan Greenspan

A bias towards change

Apr 24th 2003
From The Economist print edition

Better to replace the Fed's chairman sooner, rather than a couple of years later

AP

IF THE man who has towered over American monetary policy for almost 16 years had lived in Japan, he would surely be given that country's delightful designation as a “living national treasure”. A man who is always instructive to listen to on any economic topic, Alan Greenspan has been a model of calm, intellectual authority, a peerless practitioner of the central banker's art of combining just enough clarity to offer convincing guidance with enough ambiguity to avoid giving any games away. All that makes it not surprising that President George Bush said this week that he favours re-appointing Mr Greenspan when his current four-year term as chairman ends in June 2004. Nor, perhaps, was it surprising that Mr Greenspan responded by saying that he would indeed like to stay on. Not surprising, but unfortunate. It is time for a change.

Mr Greenspan is 77 years old. That is not, in itself, a reason for him to go, although it is surely imprudent to take the risk that, at some point, investors might start to worry about his health. (This week he was in hospital for a prostate operation, though happily it is not cancerous.) The main reason is that under the Fed's rules he cannot stay on much longer anyway, as his non-renewable 14-year term as one of the Fed's governors expires in January 2006. So President Bush's inclination to reappoint him is merely an inclination to avoid a politically controversial decision during the 2004 presidential election year. The initiative for an early retirement—now, or early in 2005, after the election—really needs to come from Mr Greenspan himself. He should take that initiative; and the president and the financial markets should welcome it.

During the 2000 presidential campaign, Mr Bush's Republican rival, John McCain, joked that if Mr Greenspan were to die he would still want to keep him on as chairman, propped up behind his desk. Behind the jest lay a serious notion: that Mr Greenspan's reputation is so golden, and his chairmanship of the Fed so perfect, that he should be kept on for as long as possible. That idea, however, does a disservice both to monetary policy and to Mr Greenspan himself.

There will be life after Alan

Mr Greenspan has not been the saint he is often dubbed in financial markets. For nobody could be. By their very nature, monetary-policy decisions have to be made in a fog of uncertainty. During the late 1990s, the fog was particularly dense, as the chairman often acknowledged. His response was to keep interest rates low and thus to allow asset prices to continue to rise, on the theory, sometimes too-confidently stated, that gains in productivity might prove enough to justify the price rises—or, at least, to make a crash reasonably painless. The boom was huge, and the crash has been huge too. As Mr Greenspan would agree, it is too soon to tell how painful that crash will prove to be. His bet cannot yet be judged to have been miraculously right or culpably wrong.

Many also think that any successor is bound to be inadequate. Yet that was also the view in 1987 when Mr Greenspan was chosen to succeed Paul Volcker. Plausible candidates abound: they include Martin Feldstein, a Harvard economics professor; Glenn Hubbard, until recently chairman of the Council of Economic Advisers; or even Larry Summers, president of Harvard University and, as Bill Clinton's treasury secretary, a possible symbol of Mr Bush's claimed bipartisan touch. It is time for the post-Greenspan era to begin.

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Northern Ireland

Britain's dirty war

Apr 24th 2003
From The Economist print edition

A public inquiry is needed into army and police collusion in murders in Northern Ireland

Reuters

Get article background

ON SUNDAY February 12th, 1989, Patrick Finucane, a Belfast solicitor who had represented IRA terrorists, was having supper with his family. Two men burst into the room and shot and killed him in front of his wife and children. According to a report by Sir John Stevens, head of London's Metropolitan Police, published on April 17th, two of the men involved in this murder were agents working for the British army.

Sir John has been investigating collusion between the security services and loyalist (Protestant) paramilitaries in Northern Ireland for 14 years. This is his third inquiry. He has taken so long partly because his investigations have been obstructed, he says, by both the Force Research Unit (FRU), the secret army organisation that handled agents in Northern Ireland, and the Northern Ireland police, the Royal Ulster Constabulary (RUC). Sir John says, for instance, that the FRU warned one of the two agents suspected of involvement in Finucane's murder the night before he was due to be arrested, so he fled. When new plans for his arrest were being finalised, Sir John's offices were burnt down. It was, says Sir John, arson.

Nevertheless, Sir John has found out enough to confirm what many nationalists have long maintained: that the British army worked with death squads in Northern Ireland. “Collusion,” he says, “is evidenced in many ways. This ranges from the wilful failure to keep records, the absence of accountability, the withholding of intelligence and evidence, through to the extreme of agents being involved in murder. The failure to keep records...limits the opportunity to rebut serious allegations. The absence of accountability allows the acts or omissions of individuals to go undetected. The withholding of information impedes the prevention of crime and the arrest of suspects. The unlawful involvement of agents in murder implies that the security forces sanction killing.”

Who knew what?

Wars against terrorist organisations are inevitably dirty. If the British broke rules in Northern Ireland, say some commentators, it was only because the IRA was doing much, much worse. That is the line taken by those who think the best response to the Stevens report would be to do nothing but use it to draw a line under a brutal period which, it is to be hoped, the peace process is bringing to an end.

But democratic governments must be held to standards higher than those of terrorist organisations. How, otherwise, can they claim the moral superiority on which their legitimacy partly depends? If the government is to act on Sir John's report, that means prosecutions of those directly in the frame, and, preferably, a public inquiry.

Sir John has handed files on nine army officers and 14 police officers to Northern Ireland's director of public prosecutions. But prosecuting those directly involved is not enough. Sir John's focus in this report—which concentrates on the murders of Finucane and a student, Brian Adam Lambert—was too narrow. His findings implicated officers working for the FRU and the RUC, but it is quite possible that knowledge of the FRU's activities went wider. A similar investigation in Spain into the activities of a paramilitary death squad in the 1980s led to the jailing of the head of the Civil Guard and the former

interior minister.

The trouble with public inquiries is that—like the inquiry into the Bloody Sunday murders 30 years ago—they can drag on for years and cost millions. One reason is that those who fear they may be prosecuted try to wriggle out of giving evidence and surround themselves with lawyers. It might, therefore, be sensible to allow such an inquiry to offer immunity from prosecution to particularly useful witnesses.

The government needs to respond to Sir John's report by showing that it is determined to find, and hold to account, those in the British state who have aided and abetted murders. And that might have the happy side-effect of edging forward Northern Ireland's stalled peace process.

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Argentina's election

Reform not revolution

Apr 24th 2003
From The Economist print edition

A crowded and conservative field, but a new agenda

EPA

FOR much of the 1990s, Argentina was held up as the poster-child for the free-market reforms of the "Washington consensus". Carlos Menem, its Peronist president from 1989-99, privatised everything from oil to water. Argentina enjoyed wild surges of economic growth, only for this to end in depression and, in 2001, economic collapse. Argentina's subsequent suffering has made it a poster-child for the anti-globalisation movement. Argentines, it was said, were united in their revolutionary hatred of a corrupt political class and of the IMF.

It is the business of posters to simplify and thus distort. Even so, the likely outcome of a presidential election in Argentina, whose first round is on April 27th, might surprise many outsiders. Certainly, the country's wrenching economic problems have fractured its politics—even the ruling Peronist party has been unable to agree on a single candidate. With the opinion polls showing five candidates each with support of between 10% and 22%, forecasting is hazardous and a run-off looks inevitable. It is likely to be contested by two out of the following three men: Ricardo Lopez Murphy, an independent liberal economist; Néstor Kirchner, the Peronist governor of an obscure Patagonian province and the protégé of Eduardo Duhalde, the current president; and, tipped by many pundits, Mr Menem himself. Not much sign of revolution there.

Rather, Argentines have kept faith with democracy—almost nobody wants a return to military rule. But they are wearily indifferent towards the election. That is hardly surprising. Argentina has indeed been ill-served by its politicians. Its economy looks to be over the worst. But since 1999 living standards have collapsed. And bruising negotiations with foreign creditors and the IMF lie ahead, before incipient recovery can turn into vigorous economic growth. Restoring trust in the public institutions will take even longer.

Of the likely three, Mr Lopez Murphy looks in many ways the best equipped for the job. He has a reputation for personal probity. His message is a simple one: that Argentina's government needs to occupy itself primarily with the rule of law and helping the poor, rather than with trying to intervene in the economy. But a non-Peronist may find governing hard: the party controls most of the provinces, and is the largest force in the Congress, which does not face elections until October.

Mr Kirchner can claim to have governed his (oil-rich) province fairly well. He is backed by Roberto Lavagna, Mr Duhalde's economy minister, who deserves credit for halting the collapse. And Mr Menem? Many of his past reforms were necessary. Now aged 72, he has not lost his political skills: lest anyone doubt his vigour, he has put it about that his current wife, a former beauty queen half his age, is pregnant. But he is also damaged goods. His government was tainted by corruption. And he was the architect of Argentina's fool's paradise, of a fixed and overvalued currency and persistent fiscal deficits.

Those policies, let it be noted, were not part of the "Washington consensus". If Argentina, and Latin America, are to achieve sustained growth, they need to revise and complement, not abandon, that reform agenda (see article). The task is to develop effective government, that does far more to tackle social needs, but that also promotes—rather than obstructs—efficient markets and the institutions these require. On this, politicians of left and right could converge, as President Luiz Inácio Lula da Silva has so far shown in Brazil. Whether Mr Menem could do this job is doubtful.

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Letters

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From The Economist print edition

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Post-war post bag

SIR – So now this war is about delivering Iraqis from "terror" ("Nemesis", April 12th)? If liberation from tyranny is the prime justification for invading Iraq, then George Bush and Tony Blair have failed miserably to show why Iraqis are in any more need of liberation than Zimbabweans, Cubans or North Koreans. Merely possessing weapons of mass destruction and human-rights abuses cannot warrant an invasion. But, clearly, liberation has now become an extra perk for coalition forces fighting a war with far deeper underlying motives.

Brinda Adhikari
Johannesburg

SIR – You reinforce repeatedly the suggestion that it was America's desire to rid Iraq of weapons of mass destruction that impelled it to invade. In the absence of any significant discoveries of chemical or biological weapons the real reason becomes more apparent. After the embassy bombings in Africa, the attack on the USS *Cole* and September 11th, the United States no longer appeared invulnerable. Iraq was chosen as a target because it was clear to the hawks in the Bush administration that its regime could be defeated with minimal losses. The perception of the rest of the world was that Iraq would not be a pushover.

As a result of the rapid military victory America once again looks invulnerable. The objective of the war was to send a message to all who have or may consider challenging America, including al-Qaeda and its like, and countries such as Iran, North Korea, and Syria.

Roderick O'Connor
New York

SIR – You are astonishingly naive about the war in Iraq. You say Mr Bush went to war because the prospect that a man like Saddam Hussein could have weapons of mass destruction was too big a danger. You completely neglect the oil business, the rebuilding business and the role of big military companies. All are certainly behind the move to war. And are Saudi Arabia, Kuwait, Pakistan and many other countries considered friends of the United States, true democracies? Are the nuclear, chemical and maybe biological weapons stocked in Israel helping disarmament in the region?

Guglielmo Lanzani
Milan

SIR – The allies repeatedly gave assurances that this war was not about oil. Are these claims not seriously undermined by the fact that the Americans took great care to protect Iraq's oil wells but did not attempt to prevent the looting of Baghdad's hospitals and museums?

Stephane Hess
Luxembourg

SIR – I was thrown into a state of disconcerting confusion by your use of the word "discombobulating".

Robert Sayers

Ascot, Berkshire

SIR – Thank you for teaching me a new word: cavil ("Nemesis", April 12th). I had to look it up. It means: to raise irritating and trivial objections; to find fault with something unnecessarily, to oppose by inconsequential, frivolous, or sham objections. Thus inspired, let me cavil a little bit about the glorious American liberation of Iraq.

Why are you so besotted with Mr Bush and his imperial delusions? The man is a usurper, cheated into office and without any democratic legitimacy. His Gulf campaign is a breach of international law. He will be the one history remembers as the hapless American president who has emboldened dictators to seek nuclear arsenals; inspired Russia, China, India and others to wage pre-emptive wars; and caused most Europeans to feel nauseated by anything American and to withdraw their allegiance to the United States.

You also invoke Nemesis. Nemesis has a way of getting her man. Sooner rather than later, I expect her to visit Washington, DC, and to cavil a little bit at Mr Bush.

C. Hensch
Zurich

SIR – You call Jacques Chirac, Gerhard Schröder and Vladimir Putin a *salon des refusés*. Mr Bush and Mr Blair are of the *salon* proper. You forget that it was *refusés* like Manet and Cézanne who have been vindicated by art history.

Ranko Bon
Reading, Berkshire

SIR – The killing of civilians by Osama bin Laden and George Bush and Tony Blair puts them into the same category. The difference is that Mr bin Laden aims to kill innocents (and delights in doing so); Messrs Bush and Blair do not. The killing of civilians in Iraq is tragic, unfortunate and essentially accidental, but never an aim.

Daniel Crowther
Preston, Lancashire

SIR – Mr Bush and Mr Blair are proposing a "vital" role for the United Nations in delivering humanitarian assistance to the Iraqis. Big mistake. The UN, which opposed the war, should not be invited to participate now that the war is over. It would grant the organisation a legitimacy it does not deserve.

The UN is the playpen of Russia, China, France and a host of other countries that actively oppose America at every turn. Its opposition to the war against the brutal dictatorship of Saddam Hussein showed that it is not a humanitarian organisation, and the United States should not let it pretend otherwise by allowing it to deliver food packages to Iraq. Let FedEx do the job.

David Holcberg
Irvine, California

SIR – What have Americans learned from their adventure in Iraq? Two things leap to mind: the Tigris flows through Baghdad; hubris flows through Washington.

David Unger
Toronto

SIR – I too shall miss the daily briefings of Iraq's unflappable information minister, Mohammed Saeed al-Sahaf ("The Scheherazade of Baghdad", April 12th). It is questionable, however, whether the word *ulug* (lout) has dropped out of current Arabic usage. The word derives from Hulagu (hence "hooligan"), a leader of the Mongols who stormed Baghdad in 1258 sparking a Muslim revolt. My wife's Syrian uncle had a large, destructive dog called Hulagu, which died recently of an intestinal disorder after trying to eat more of the household furniture than he could safely chew.

John Munro
Cairo

SIR – Spain's prime minister, José María Aznar has, you tell us, “bravely defied voters” over Iraq: 90% of them, in fact (“Cool it”, April 19th). Is this the type of democracy that you would want us to export to Iraq?

Rene Francillo
Vallejo, California

SIR – Please refrain from calling the poodle French, as you do in the title of a letter from Richard Vinson, “No French poodles” (Letters, April 12th). It is not a French breed. It was developed as a hunting and retrieving dog in Germany with characteristics generally including intelligence, bravery and a good disposition.

Mr Vinson alludes to the fact that many in the Anglo-Saxon world (including me and members of my family) have given up French wines and cheeses, Perrier water and visits to France in reaction to that country's attitude to the war in Iraq. My household also includes Martha, a fine miniature poodle. True to her breed, there is nothing remotely French about her.

Nicholas Richardson
Baltimore

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The SARS epidemic

China wakes up

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AP

A health scare may herald much more profound changes

Get article background

AT BEIJING'S international airport, a parting couple hug and press their mask-covered mouths together in a prophylactic kiss. On the streets of the capital, mask-wearing is fast becoming the norm. Outside foreign embassies, armed police have been reinforced with a new contingent of guards clad in masks and gloves. After weeks in denial, Beijing is suddenly confronting the problem of Severe Acute Respiratory Syndrome, or SARS.

This virus, though less infectious than influenza, is more than twice as deadly as influenza in a pandemic. Its mortality rate, at around 5%, is close to that of bacterial meningitis; and, like meningitis, it gains in horror by killing the young and vigorous as well as the old and frail.

Five months after the first appearance of SARS in the southern province of Guangdong, something snapped at the end of last week. On April 18th, the government information office invited the foreign media to attend a briefing on SARS, to be given two days later by the health minister and the mayor of Beijing. But neither showed up. They had been dismissed—the party's first public sacking of top officials in mid-crisis for incompetence, rather than political incorrectness.

The most senior official to attend was a deputy minister of health, Gao Qiang, who announced that there were 339 confirmed SARS cases in Beijing and another 402 suspected cases, compared with a mere 37 confirmed cases (and an undisclosed number of suspected cases) declared previously. By the 24th, confirmed cases in the city had risen to 774, with another 863 suspected and 39 deaths. This compared with 49 fatalities and 1,359 confirmed cases in the worst-affected area (by official counts), Guangdong. Beijing alone now accounts for a third of all China's reported deaths from SARS.

The upcoming week-long May Day holiday—normally a time when millions travel in crowded trains and buses—was promptly cancelled. Transport operators were ordered to screen out passengers showing possible signs of SARS, such as fever and persistent coughing. Citizens were advised to avoid crowded

areas and warned they would be quarantined if they had contact with a SARS patient. On Wednesday, schools in the capital were ordered to close for two weeks.

Why the change of tack? Not out of concern for public health, to be sure; the central government is still lethargic in the face of the far bigger problem of HIV/AIDS, which, according to a report by the Centre for Strategic and International Studies (CSIS) in Washington, may result in between 10m and 20m Chinese being HIV-positive within seven years. More important to the leaders was the damage being done to China's image abroad, and the realisation that the economic consequences of being honest may, in the long run, be less severe than those of obfuscation.

Even before the higher figures began to leak out, international events in Beijing were being cancelled because foreigners were refusing to attend and foreign tour-groups were staying away. Dependants of foreigners living in Beijing were beginning to leave the country. China's cover-up of the spread of SARS was causing the country's biggest credibility crisis abroad since the crushing of the Tiananmen Square protests in 1989. On April 23rd, compounding the regime's fears, the WHO advised travellers not to go to Beijing—advice not heard since those violent days.

Finding scapegoats

At home, the credibility of China's new leaders, who took office at a party congress last November and a parliamentary session in March, is also at stake. The president and party chief, Hu Jintao, and the prime minister, Wen Jiabao, have been trying to present themselves—as new leaders do, even here—as men attuned to the feelings of ordinary citizens. They have been failing. Hence the unaccustomed rolling of at least a few official heads.

Cynics say, however, that the ousted officials were scapegoats for policymaking errors at a higher level and for the ingrained weaknesses of China's sclerotic and secretive bureaucracy. Bates Gill of the CSIS says the ousted health minister was “a breath of fresh air”, who helped secure the release of an activist detained last year for revealing a secret document on the spread of HIV in China. Neither of the dismissed officials was responsible for the decision to order a news blackout on the development of SARS as it spread across Guangdong in February and reached the capital in March.

The two-week annual session of parliament, which began on March 5th, was an event that no leader wanted marred by panic over a disease. The party controls the media through secret directives issued by the party's Propaganda Department, which is overseen by a member of the Politburo's Standing Committee. The Standing Committee, headed by Mr Hu, would have known about the decision to suppress news coverage of SARS, as well as to avoid preventive measures in Beijing that might alert the public to the problem.

It was not until April 2nd that China's cabinet, headed by Mr Wen, held its first meeting to discuss the SARS problem. This might have been a good time to sideline the health minister, Zhang Wenkang, if he was felt to be underperforming, but instead he was put in charge of SARS prevention. At a news conference the next day, Mr Zhang told a correspondent that “The ordinary people of the mainland are not like the ordinary people of Hong Kong. Their education level is lower. If we released information like they did in Hong Kong, there would be chaos.” Mr Zhang would hardly have made such a remark if Mr Wen had told him to be completely open about the epidemic.

And then there is Jiang Zemin, Mr Hu's predecessor, who is still the country's most powerful man as commander-in-chief of the armed forces. There is little evidence that Mr Jiang has played a significant role in handling the SARS crisis. If he had, the problem in Beijing might have been a little easier to tackle. Of Beijing's 175 hospitals, 16 are under the control of the armed forces and, until last week, were under no obligation to report SARS cases to the city authorities (even though, with their often superior facilities, they are a magnet for military and civilian patients alike). But though bringing such hospitals to heel may help in gathering statistics, their previously separate status does not help explain why Beijing's SARS figures were so seriously understated. The only plausible reason is that people were lying.

The health ministry said on Sunday that it knew of no deliberate cover-ups, but one of the more daring official newspapers has suggested otherwise. The *China Business Times* accused the Beijing city authorities of “making false reports” and in another article said provincial authorities were giving tardy, incomplete and falsified figures in order to avoid blemishing the careers of officials. Lying is endemic in China's bureaucracy, partly because leaders at all levels are fearful that any mishap reported in their jurisdiction may be used as an excuse to pass them over for promotion or have them dismissed.

The *China Business Times* also pointed out the discrepancy between the government's decision last weekend to scrap the week-long May Day holiday (citizens will still get one day off) and a statement on April 6th by a senior tourism official that China should take advantage of the movement of tens of millions of holidaymakers around May Day to demonstrate that China is “the safest tourist destination”. Again, the official was presumably speaking in the knowledge that the prime minister would fully agree with him. Mr Wen, it appeared, was determined to play the crisis down and pretend that all was normal, even as Beijing's hospitals were struggling with an upsurge of cases.

Town and country

On roads leading into Beijing's neighbouring province of Hebei, officials have begun stopping some vehicles to check passengers for signs of SARS to prevent the disease from spreading. But such measures have come too late. Official figures show that SARS has now affected 20 of the country's 31 provinces and municipalities. Apart from Guangdong, Beijing and the northern province of Shanxi, each has reported only a tiny handful of cases. Tianjin, the port city closest to Beijing, has reported only eight, the whole of Hebei province has declared only six and Shanghai a mere two. But it is safe to assume that the actual number of cases around the country is significantly higher. With the best will in the world, cash-strapped local governments whose health-care and disease-surveillance systems have fallen into disarray in recent years for want of funds would be extremely hard pressed to monitor the spread of a new disease.

Even in Beijing, the official figures still convey only a partial picture. The city has offered free treatment for poor SARS patients. But this is little consolation to the large numbers with no health insurance, particularly the unemployed and the 3m or so ill-paid migrant labourers (about one-fifth of the city's population) who are too poor to consider hospital treatment in the city. Many with SARS-like symptoms would think twice about any offer of free treatment, since their ailment may well turn out to be something else for which they would have to pay. Compounding this fear is the risk that days of quarantine for themselves and family members could cause a big loss of earnings.

In rural areas, the situation is particularly bleak. The “barefoot-doctor” system established under Mao Zedong to provide basic health care to peasants has broken down. Many township hospitals can now do little more than dispense medicine. As many as 70% of country people cannot afford to pay for medical treatment. On Sunday, the deputy health minister said that if SARS was found to be spreading in the countryside, “the consequences would be extremely serious.” But how will anyone know? On April 23rd the government announced a fund of 2 billion yuan ($240m) to support anti-SARS work in the countryside and among the urban poor. The problem, however, could only be solved by a massive overhaul of the health-care and insurance system that would cost many times more than that.

With their political U-turn, Mr Hu and Mr Wen may help to shore up their image. In Beijing, the party's legitimacy rests largely on its ability to deliver economic growth. Although a severe downturn could precipitate serious social unrest, China's SARS crisis (unlike Hong Kong's) occurs at a time of strong growth. As long as the death toll does not rise (or is not rumoured to rise) dramatically in key urban areas such as Beijing and disruption is short-lived, the new leadership will probably muddle through. But the trust of the rest of the world, which had come to believe that China was beginning to understand the need to play by international rules, could take far longer to repair.

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Tracking the killer

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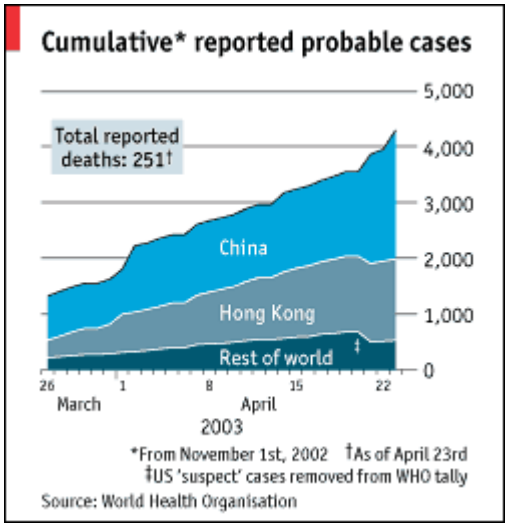
SIX weeks since the WHO's global alert, health experts still cannot predict how far SARS will spread. Some, though, fear it may be too late to contain the virus. In Hong Kong, China, Canada and probably Singapore, local transmission continues. However, quarantine measures in Hong Kong and Singapore are having an impact, and Vietnam appears to have brought the virus under control. In other parts of the world, countries such as Britain and the United States have been successful in containing cases of SARS that arrive in the country. Despite reports this week that the virus may be mutating, scientists have yet to show that genetic changes in the virus are related to changes in its pathogenicity.



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Hong Kong's economy

In intensive care

Apr 24th 2003 | HONG KONG
From The Economist print edition

From hopes for a strong recovery to fears of recession within weeks

Get article background

Reuters

Masked for school

SARS is not bad news for everybody. Makers and retailers of Chinese medicine are struggling to meet demand, as people in Hong Kong and China turn to traditional herbs to boost their immune systems. Telecoms companies are doing well as businessmen cancel meetings and tele-conference instead. Rentals of DVDs and sales of instant noodles have been soaring, as people stay at home.

But these are exceptions to the rule. East Asia is now in the midst of an economic period, says the World Bank, “as troubled and uncertain as any since the 1997-98 financial crisis”. Bill Belchere, an economist at J.P. Morgan, thinks that Hong Kong's economy will shrink by 8% (annualised) during the current quarter and Singapore's by 2%, and that the region as a whole will grow by only 1%. His growth estimate before the outbreak was 4%.

Hong Kong, with more SARS cases than any other city in the world, is by far the worst-hit economy. Its tourist industry, which accounts for 5% of GDP, has been obliterated. Average hotel occupancy over the Easter holidays has fallen by around 80% and is now in single digits. Five hotels are for sale already. Cathay Pacific and Dragonair, Hong Kong's two passenger airlines, have lost two-thirds of their normal traffic. Restaurants are empty.

Domestic demand has dropped as well. Retail prices have been falling since 1998; in March, deflation turned virulent and hit 2.1%. Economists expect that April will be worse. The property market has been in the doldrums since 1997, even without SARS. Now transaction volumes are down sharply, and one property consultant reckons that luxury rental prices will fall by 10% this year.

Exporters, too, are suffering. Earlier this month, Hong Kong's jewellers and watch-makers were banned from an important trade fair in Switzerland, losing many orders. Last week, foreign buyers stayed away from a trade fair in nearby Guangzhou, where many Hong Kong entrepreneurs have factories. According to first estimates, only $730m-worth of orders were booked, compared to $17 billion last year.

The real effects of SARS will not be clear for some time. Hong Kong's small businesses, usually the economy's pride, appear to be hurt most, even if the pain is not yet shown on balance sheets. Bankruptcies will rise, leading to higher unemployment and more loan write-offs by banks.

All this comes at a particularly bad time for Hong Kong. As recently as budget day, March 4th—when the outbreak had begun but was not yet public knowledge—the city's biggest problem seemed to be its deficit. How fast priorities change. On April 23rd, Tung Chee-hwa, Hong Kong's chief executive, said that the government will spend $1.5 billion in rescue money: waiving utility charges for three months, giving out tax rebates and extending emergency loans to the most desperate industries.

Hong Kong is not yet a crisis economy. Forward rates on the Hong Kong dollar, a proxy for the territory's risk premium, have risen in recent weeks, though not enough to suggest that an attack on the currency's peg to the American dollar is imminent. Nevertheless here, as in Singapore and China, everything depends on whether this disease can be controlled.

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Canada's worries

Untouchable

Apr 24th 2003 | TORONTO
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The country's biggest city becomes a pariah

Get article background

CANADA is the only country outside Asia to have had any deaths from SARS. As of April 22nd, 15 people had succumbed. All lived in or around Toronto. That city has the overwhelming majority of the 320-odd cases reported in Canada, almost all of them directly traceable to contact with travellers who went to Hong Kong in February and March. Hardest hit, both by the disease and by the fear of it, has been the large Asian community that is concentrated in various parts of the city.

Tourism has taken a hard knock, for Toronto is also Canada's tourism capital: 16.3m visitors came last year, spending a total of C$3.5 billion ($2.4 billion). In mid-April, the city's hotels are usually about three-quarters full; this year, occupancy has been about half that. Restaurants and tourist attractions are finding business slow; hundreds of workers have been laid off or put on reduced hours.

The biggest cancellations have been of a couple of medical conventions. The American Association for Cancer Research, for example, was supposed to bring 12,000 doctors to Toronto earlier this month, thereby pumping about $20m into the economy. On April 23rd the World Health Organisation added Toronto, with Beijing and China's Shanxi province, to the list of places to be avoided by international travellers. “You won't be able to take this mark off,” lamented Donald Low, the chief microbiologist at the city's Mount Sinai Hospital. “They could have waited another four or five days.”

Business leaders and the media are calling for a stronger lead from Toronto's mayor. But Mel Lastman, facing his own health problems and widely viewed as a lame duck, was almost invisible until the WHO announcement, which he energetically condemned.

One major issue is compensation for the 7,000-10,000 people in Toronto who have voluntarily quarantined themselves after possibly coming into contact with an infected person. At first, it seemed that these people would be eligible for financial relief only if they developed the illness; now, the federal government may relax its employment-insurance regime to cover them. On April 22nd, Sheila Copps, a senior federal cabinet minister, suggested that the government should classify SARS as a “national disaster”; but no one else in cabinet agreed with her.

Torontonians travelling elsewhere are under wide suspicion. Several countries have said they are not welcome. Torontonians are also becoming suspicious of each other. They are going out less (though the unseasonably cold weather could be partly to blame), and some are looking for alternatives to shaking hands. At one Chinese restaurant chain, managers are interviewing all employees daily to check whether they are showing symptoms.

Politically, the outbreak probably helped to persuade Ernie Eves, Ontario's premier, not to go to the polls this spring. Economically, the cost is harder to judge. The governor of the Bank of Canada, David Dodge, said the outbreak had the potential to cut growth this year, but it was too early to say by how much. The bank cut its growth forecast anyway on April 23rd, from near 3% in January to 2.5%.

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Foreign policy

The shadow men

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War in Iraq has helped to create a new American foreign-policy establishment. Neo-conservatives are only part of it

IN 2000, a close-knit group of about 20 people took their places in the Bush administration, hoping to overthrow Saddam Hussein and spread American ideas of democracy throughout the Middle East. They called themselves “neo-conservatives” and, for two years, no one paid them much notice.

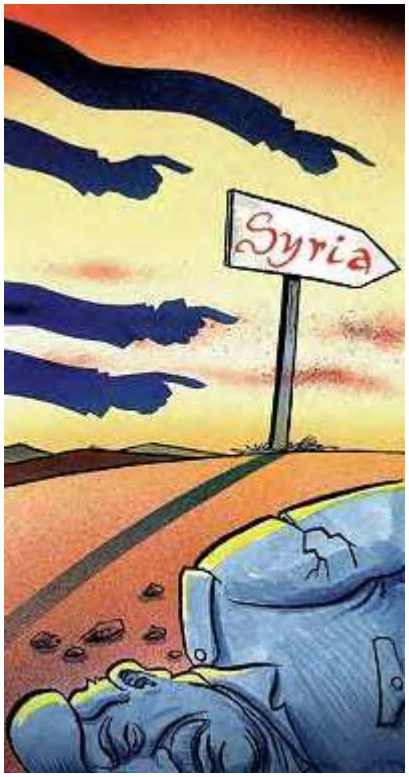
Now the tyrant has gone, and governments around the world are nervously wondering what this much suspected group of men mean to do next. With Baghdad still burning, the neo-cons' most senior official, Paul Wolfowitz, the deputy secretary of defence, popped up to say that “there has got to be change in Syria”. That comment ushered in two weeks of harsh diplomatic pressure from the Bush administration about the other Baath regime, though Mr Wolfowitz quickly added that “change” did not, in this case, mean regime change.

Such talk rattles chancelleries round the world. Those in power try to be diplomatic about their concerns. But Lord Jopling, a former British cabinet minister, spoke for many when he told the House of Lords on March 18th that “neo-conservatives...now have a stranglehold on the Pentagon and seem, as well, to have a compliant armlock on the president himself.”

Robert Kagan, a neo-conservative writer living in Brussels, says “One finds Britain's finest minds propounding...conspiracy theories concerning the ‘neo-conservative' (read: Jewish) hijacking of American foreign policy. In Paris, all the talk is of oil and ‘imperialism’—and Jews.” A member of the French parliament quoted his country's foreign minister, Dominique de Villepin, saying “the hawks in the US administration [are] in the hands of [Ariel] Sharon”—a comment seen in some circles as a coded message about undue pro-Israeli influence exercised by neo-cons, most of whom are Jewish, at the heart of the administration.

So has a cabal taken over the foreign policy of the most powerful country

in the world? Is a tiny group of ideologues using undue power to intervene in the internal affairs of other countries, create an empire, trash international law—and damn the consequences?



Not really. To argue that an intellectual clique has usurped American foreign policy is to give them both too much credit, and too little. American foreign policy has not been captured by a tiny, ideological clique that has imposed its narrow views on others. Rather, the neo-cons are part of a broader movement endorsed by the president, and espoused, to different degrees, by almost all the principals involved, from Vice-President Dick Cheney down (Colin Powell, the secretary of state, is a notable exception). Strands of neo-conservatism can even be found among some Democrats, which is why it makes sense to think that a new foreign-policy establishment may be emerging.

For the same reason, the criticism neglects the role of others. Near-consensus is found around the notion that America should use its power vigorously to reshape the world. Yet because parts of the neo-con agenda have been adopted by a president who is a mostly pragmatic decision-maker, and because the neo-cons themselves are politically astute, the neo-cons do not have things all their own way. They are powerful in so far as the president listens to them, rather than in their own right. The result is that American foreign policy is becoming a mixture of neo-conservative ideas, the president's instincts—and the realities of power.

How they grew

To see how this came about, start with who the neo-cons are. It is understandable that they are seen as a clique, because, to begin with, they were. The group started in the 1960s as a breakaway faction from the Democratic Party. This first generation emerged as critics of the liberal establishment of their day; paradoxically, considering their reputation as ideologues, their main complaint was that Democrats had lost touch with the practical results of their policies. The term “neo” (new) was an insult thrown at them by the left, but it distinguished them from “real” conservatives; one of their founders, Irving Kristol, joked that a neo-conservative was a liberal “mugged by reality”. Foreign policy was only part of the original neo-con agenda: social policy was at least as important.

The second generation of neo-cons is different. Few are Democrats or former Democrats. They are unapologetic Republicans. And while they retain distinctive views on domestic matters (for example, neo-cons were among the fiercest critics of the former Republican Senate leader Trent Lott, who was obliged to step down for making racist remarks), foreign policy is their focus—partly because their main social-policy proposals, such as welfare reform and the dismantling of affirmative action, have become mainstream.

The second generation forms a clique intellectually and socially, but not politically. Most come from similar backgrounds, whether professors (like Mr Wolfowitz and Steve Cambone, also at the Pentagon) or lawyers (like Doug Feith, the Pentagon's number three, Scooter Libby, Mr Cheney's chief of staff, and the State Department's John Bolton). They join the same think-tanks, such as the American Enterprise Institute (AEI) where Richard Perle, perhaps their most flamboyant spokesman, is a fellow. They write for and read the same magazine, the *Weekly Standard*, edited by Bill Kristol, son of one of the neo-cons' founders. They co-author the same studies (five of the 27 authors of “Rebuilding America's Defences”, a highly influential report published in 2000, are in the administration). They are, in short, Washington talkers and intellectuals.

In most other countries, where foreign policy is made by permanent bureaucracies, it would be unthinkable for a small group of professors and lawyers to take any sort of policymaking role, let alone a dominant one. In America, with its traditions of entrepreneurial policy advocacy and political appointees, it is not so odd.

What is unusual is that the neo-cons are so different from the Texan business establishment gathered around George Bush. They also differ from the corporate chieftains the president hired for top jobs, such as Mr Cheney and Donald Rumsfeld (both former CEOs). Many neo-cons backed John McCain, Mr Bush's Republican rival, in the campaign; a few had even supported Al Gore.

So it was hardly surprising that, at the start, neo-cons were merely one among several groups vying for foreign-policy influence—and without much success. On the campaign trail, Mr Bush talked about a "humble, but strong" policy and was critical of "nation-building"—very un-neo-con stances. The dominant foreign-policy voice in the president's early days was that of Condoleezza Rice, the national security adviser. Ms Rice's main concern was to improve America's ties with other great powers—a policy that, while part of the neo-con agenda, was hardly uppermost in it.

Even Mr Cheney, who was to become the neo-cons' most powerful backer, seemed to differ from them early on. As defence secretary under the first President Bush, he had supported the decision not to overthrow Saddam in 1991 (to Mr Wolfowitz's dismay). And he was on record as being critical of Israel and its settlement policies—anathema to the most pro-Israeli neo-cons. Even in the aftermath of September 11th 2001, when Mr Wolfowitz went to the president to argue his case that the terrorist attacks showed America needed urgently to address the threat of Saddam Hussein, he was fobbed off.

Intellect v chaos

So how did the neo-cons go from being one group among several to the positions of influence they now occupy? By articulating views that came to seem more important after September 11th 2001—but which many conservatives agreed with even before that.

Neo-cons start with the notion that America faces the challenge of managing a "unipolar world" (a phrase coined by a neo-conservative commentator, Charles Krauthammer, in 1991). They see the world in terms of good and evil. They think America should be willing to use military power to defeat the forces of chaos. Admittedly, they go on to advocate democratic transformation in the Middle East, a view that is not shared throughout the administration. (This is an extremely radical policy, so not only are neo-cons not 'neo', they are not, in the normal sense of the term, conservative either.) But that apart, their views are not so different from others in the administration.

Neo-cons are also energetic in style, preferring moral clarity to diplomatic finesse, and confrontation to the pursuit of incremental advantage. They are sceptical of multilateral institutions that limit American power and effectiveness; they prefer to focus on new threats and opportunities, rather than old alliances.

Again, these views are not unique to neo-cons. The trends have been visible in American policy since the end of the cold war. Indeed, as Walter Russell Mead of the Council on Foreign Relations points out, opinion in the Republican Party has been shifting for longer than that. The movement away from Euro-centric east-coasters towards Sunbelt conservatives more concerned about Asia, Latin America and the Middle East began with Barry Goldwater and Ronald Reagan in the 1970s.

These common intellectual roots made it possible for neo-cons to maintain close ties with traditional conservative politicians such as Messrs Rumsfeld and Cheney. Though neither really counts as a neo-con, Mr Rumsfeld signed a letter to President Bill Clinton in 1998 urging him to make removing Saddam Hussein and his regime "the aim of American foreign policy", and the founding document of neo-con policy was the Defence Planning Guidance drafted for Mr Cheney in 1992 during his stint as defence secretary. Written by Mr Wolfowitz and Mr Libby, it raised the notion of pre-emptive attacks and called on America to increase military spending to the point where it could not be challenged. Ten years later, both ideas have been enshrined as official policy in the 2002 National Security Strategy.

The event that turned general like-mindedness into specific influence was the terrorist assault of September 11th 2001. "Night fell on a different world," Mr Bush said. Neo-cons had long been obsessed with the Middle East and with "undeterrable" threats, such as nuclear weapons in the hands of terrorists. Traditional Republican internationalists, who had less to say on either count, offered little intellectual alternative. As the old rule of politics says, "You can't fight something with nothing." Mr Bush therefore embraced large parts of the neo-con agenda.

But not immediately. The decision to take on Saddam by force seems to have been made sometime between September 2001 and March 2002. In January 2002, in his state-of-the-union address, Mr Bush invoked the infamous "axis of evil"—which could have been lifted from a neo-con handbook. This February, he gave a speech to the AEI about building democracy in Iraq and encouraging political reform in the Middle East.

How much to blame?

Some Europeans seem to think the neo-cons' influence is a direct result of Mr Bush's inability to grasp basic foreign-policy ideas. The recent evolution of American policy does not bear out this patronising view. The new policy was adopted in response to a cataclysmic event. It enjoys support at almost every level of government, including Congress (the main exceptions are the State Department and serving officers in the armed forces). Above all, the new policy is defined by the president himself. The neo-con clique depends on Mr Bush, not the other way around.

Fine, you might argue, but this just shifts the focus of concern from the cabal to the consensus. Whoever formulates policy, it is still, say critics, inimical to the interests of (some) Europeans, international law, multilateral institutions and traditional alliances. Moreover, if policy is run by a coalition of people, of whom neo-cons are just the first among equals, then that raises questions about the stability of the coalition, and whether there are internal tensions waiting to erupt between neo-cons and others.

The worries about America's foreign policy are mostly about means and costs, not ends. Neo-cons want to liberate Iraq, spread democracy through the Middle East and improve counter-proliferation measures. Critics can hardly object to any of these, even if they do not care to focus on the aims as relentlessly as neo-cons do.

Europeans often attribute everything they dislike in American policy to the influence of this cabal. Yet to do so is obviously wrong: the administration's—indeed, America's—disengagement from certain international treaties long predated the neo-cons' ascendancy. It is true that neo-cons are more unsparing than most in their disdain for multilateral bodies that they think act against American interests. But their attitude to “entangling alliances” is pragmatic, rather than hostile across the board. Many, though not all, like NATO because of its role in uniting eastern and western Europe after the collapse of communism. When France and Germany held up a Turkish request to NATO for supplies of defensive equipment before the Iraq war, the administration found a way round the obstacle within the organisation, rather than acting outside it. The neo-cons' main ire is reserved for the United Nations and, sometimes, the European Union (see article) .

Clearly there have been big diplomatic ructions in the past year, notably in the Security Council over the second Iraq resolution. But it is hard to blame the neo-cons entirely, or even at all. The French and Russians were responsible for much of the bad blood, while the department largely responsible for American diplomacy in that unhappy hour was the very un-neo-con State.

The one area where neo-conservative influence may really prove inimical to the interests of others is Israel. Neo-cons are among Ariel Sharon's staunchest defenders. Most fear the “road map” will endanger Israel's security, and will do everything they can to stop it.

On the other hand, the map is itself an indication of the limits of their influence. If neo-cons really ran the show, as they are said to, there would almost certainly be no such map. That there is testifies to the other forces acting on Mr Bush: the State Department, the National Security Council, even Tony Blair.

These forces will continue to influence the president and moderate the neo-cons' power. This could be good or bad. Good in that the wildest flights of neo-con fancy will be grounded; bad if the result is policy incoherence. At the moment, the good outcome seems the more likely.

The limits of influence

Iraq is the neo-cons' test case. Military victory has increased the group's influence hugely; a serious reversal could undo it. But successful post-war reconstruction would embolden them to press the president to adopt other bits of their agenda. This does not mean sending troops to Damascus (the neo-cons write what they mean: they have always singled out Iraq, and no other country, for military action). Rather, it means putting pressure on Syria to stop supporting Hizbullah and on the Saudis to stop exporting Wahhabi extremism; and it means backing the internal opposition in Iran to the clerical regime.

But there will be constraints on getting this wish-list through. The neo-cons have waited more than ten years to reform Iraq. They will not lose interest in it, as happened in Afghanistan. But they could be distracted by, say, a crisis in North Korea or on the Indian subcontinent. They could be defeated in

Congress over the cost of their plans, especially if the economy falters. Or fault lines could re-emerge with mainstream conservatives over how long to keep troops abroad, with the mainstream, backed by the cautious realists in the armed forces, demanding that troops return home as soon as possible.

Lastly, there is Mr Bush himself. His main concern is re-election, and he has already started to switch his attention back to the economy to avoid his father's fate. That may do more than anything to temper the neo-cons' influence.

European and other governments could add their weight to these countervailing trends if they chose. But, with the exception of Britain, they have not, preferring to demonise the neo-cons as a cabal. This is almost certainly a mistake. The neo- cons are not a marginal group. They are providing much of the intellectual framework for America's foreign policy. Barring a serious reversal abroad, that will continue—and demonising them will merely marginalise their critics.

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Military transformation

The Janus-faced war

Apr 24th 2003
From The Economist print edition

Was the war in Iraq a vision of the future or a blast from the past?

IF GENERALS have a tendency to fight the previous war, journalists and politicians can be too eager to wage the next one. Before the last “pocket of resistance” was emptied, the war in Iraq was said by some to vindicate all the theorising in the Pentagon about a new kind of warfare. As Baghdad fell, Vice-President Dick Cheney was extolling the conflict as “proof positive” of the success of “transformation” (the buzzword for a revamp of America's armed forces). Are those really its lessons?

According to the theologians of transformation, the world is witnessing a military revolution akin to the invention of the chariot or, more recently, of the nuclear bomb. America, they argue, should take advantage of rapidly evolving technology to persuade potential rivals not to even think about conflict, and to confront emerging threats such as international terrorism. In practical terms, this means more unmanned vehicles and lighter, more agile land forces. It means even better surveillance and communications, weapons that can be delivered accurately and stealthily over long distances (including from space), and new military doctrines.

If its advocates—who include Donald Rumsfeld, the defence secretary—are right, transformation can make the world safer for Americans, and battle still less risky for its soldiers. But it won't be free. The armed forces, slimmed by a third of their personnel during the 1990s, could be trimmed further. And, with the Pentagon's budget rising beyond Reagan-era levels in real terms, vast amounts of money are at stake: choosing which weapons to design and buy with all that cash, and which to drop, means making enemies as well as friends. Transformation could reduce America's reliance on foreign bases, and make it even less practical to fight alongside allies. If it means that America can change regimes painlessly and at will, it could have other consequences as well.

So a lot rests on just how transformational the war in Iraq is deemed to have been. In fact, the idea that it was a blast from the future is a simplification.

Something old, something new

The vision of the war as a Rumsfeldean innovation rests partly on a speculative view of how the coalition devised its plan. It goes like this: General Tommy Franks, the military commander, was indeed intent on fighting the last war—until Mr Rumsfeld cajoled him out of his hidebound conservatism, obliging him to rely on fewer troops than he wanted. Some aspects of warfare that are not amenable to transformation—accidents; surprises; some casualties—briefly seemed to have proved Mr Rumsfeld wrong. But in the end he, and transformation, emerged triumphant.

The problem with this version of events is that, although much smaller than those amassed to fight the first Gulf war, the coalition's forces were much larger than, say, what America had in Afghanistan; and, Turkey permitting, they would have been even bigger. Compared with 1991, the coalition did more (conquering Iraq, not just expelling it from Kuwait) with less. But the demands of post-war stabilisation, and the fleeting possibility of a simultaneous Korean crisis, may have discredited the notion that America can, in all, get by with fewer troops.

And in some ways the strategy represented a perfection of an old form of warfare rather than the birth of a new one. The rapid armoured thrust to Baghdad, supported by air power, looks novel alongside the long air war of 1991—but not when compared with the triumphs of the German *Blitzkrieg*. The idea of destroying a regime by taking its capital was familiar to Napoleon. The conquest of Baghdad itself was a startling *coup de main* that owed much to the initiative of commanders on the ground; but even that

confirmed the utility of the heavy armour that the transformationists disdain. Michael O'Hanlon, of the Brookings Institution, says “the urban battles revalidated not just tanks but the guys operating them and the guys covering them with rifles in their hands.”

There were some novelties, such as the big role of special forces—darlings of the transformationists and of Mr Rumsfeld. They will be hard to beat in the inter-service war that always follows the real thing. Real-time surveillance and intelligence, some of it from unmanned drones (another transformation pin-up), enabled the time between spotting and striking targets to shrink from days to minutes. Although precision bombs helped in 1991, the availability of cheap, all-weather varieties meant they were used much more pervasively and successfully this time. The transformationists will also feel vindicated by what went wrong: the Turkish fiasco bolsters their view that America must be able to project its power from a distance; and the sluggishness with which American forces were deployed confirms that they need to be nimbler.

Other potential adversaries will have noted the relative (if, in the great scheme of the war, inconsequential) success that the Saddamites had with “asymmetric” methods. But Iraq's generally woeful performance (shockingly bad tactics, awful morale and kit) means that learning too many lessons from “Operation Iraqi Freedom” may be inappropriate. North Korea might not be such a pushover. Mr Rumsfeld may feel emboldened by his victory to make the sort of painful cuts and reforms that transformation zealots would like him to—and which, despite his modernising reputation, he has so far largely avoided. But perhaps tanks, and a goodly numbers of troops on the ground, should not go the way of trench warfare just yet.

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The right to silence

But starting when?

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The Supreme Court will reconsider the scope of the famous Miranda warnings

THE so-called "*Miranda*" warning ("you have the right to remain silent") is one of the best-known features of America's criminal-justice system. Though familiar, the warning has also long been controversial, repeatedly challenged by political conservatives who consider it one of the worst examples of aggressive meddling by the liberal Supreme Court led by Chief Justice Earl Warren. The court ruled in 1966 that all accused had to be told their rights before being questioned. This week the current conservative-leaning court agreed to revisit the subject yet again.

The case taken up by the court, which it will decide next year, concerns the scope, rather than the legitimacy, of the warning. The current court has already confirmed that, if the police fail to advise suspects of their rights while being questioned, anything the suspect says cannot be admitted during a trial. But if incriminating evidence is subsequently discovered as a result of what a suspect said before being told his rights, is this admissible?

Samuel Patane was arrested in 2001 outside his home in Colorado Springs for violating a domestic-violence restraining order. When a detective began reading Mr Patane his rights, he said he already knew them, and the detective stopped. He then asked Mr Patane, a convicted felon on probation, where his gun was, and Mr Patane told him. After the gun was found, Mr Patane was charged with illegal possession of a firearm, but he sought to have the gun suppressed as evidence on the ground that he had not been properly read his rights. Last September, the federal appeals court in Denver ruled in Mr Patane's favour. The federal government appealed to the Supreme Court.

This case arises directly out of a landmark 2000 Supreme Court case, *Dickerson v US*, which seemed to have settled once and for all the continuing dispute about *Miranda* warnings. That case was a stunning blow to *Miranda*'s critics. In a surprising twist, the opinion for the 7-2 majority upholding the *Miranda* decision as a "constitutional rule" was written by Chief Justice William Rehnquist, who had been a persistent critic of the original *Miranda* ruling throughout his judicial career and had joined earlier opinions chipping away at it. He changed his mind partly because most American police forces, which originally opposed the *Miranda* warning, now embrace it as a useful procedure which reduces courtroom disputes about the voluntariness of confessions. In the view of the Denver court the *Dickerson* ruling, giving the *Miranda* decision the standing of a "constitutional" rule, also swept aside two Supreme Court rulings of 1974 and 1985. Those had seemed to allow the admissibility of physical evidence found as a result of statements made by defendants before they had heard the *Miranda* warning.

In the peculiar circumstances of Mr Patane's case—that he told the arresting detective he already knew his rights—it may seem justified that the gun should be admissible. But many supporters of the *Miranda* warning argue that, if the court decides the case this way, police across the country will be encouraged to interrogate suspects regularly without the warning to gather as much physical evidence as possible, leaving many vulnerable to intimidation and undermining *Miranda*'s effect.

In its appeal, the government maintains that the point of the *Miranda* warning is to "guard against the use of unreliable statements at trial" but that physical evidence "undoubtedly constitutes reliable, trustworthy evidence". The issue arises frequently, it concedes, because "warnings may be omitted during a fast-moving investigation", but claims that excluding evidence obtained from suspect's statements for this reason would impose serious costs on the fight against crime.

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The return of the drive-in

The star-spangled vision comes back

Apr 24th 2003 | LITCHFIELD, ILLINOIS
From The Economist print edition

Watching a film in God's open air (plus whiffs of hot dog)

THE small town's lights are distant and dim, and the traffic on the old Route 66 does not disturb the still night. After paying a dollar a head, the cars' drivers jockey for the best spots in front of the large white screen of the SkyView Drive-In. Children scatter, the adults settle in. As the screen lights up, cartoons of dancing hot dogs and ice-cream cups announce that the show will begin in a few minutes. The special aroma of drive-in hot dogs, from the suddenly crowded snack bar, fills the air. The film begins under the canopy of stars. There may not be a more beautiful place on earth.

The SkyView Drive-In is both a relic of the past and a harbinger of the future. Drive-in cinemas are making a comeback in America. Most of the 5,000 that flickered through the peak period of the 1950s are gone, buried by new buildings or left rusting and overgrown. But some old drive-ins are being restored, and a few new ones are being built; the total is inching back to the 1,000 mark.

Farther along the highway that runs in front of the SkyView is the Route 66 Drive-In in Carthage, Missouri. The original was shut down, and became a car-salvage yard, but its successor is now a thriving celebration of the history and romance of John Steinbeck's Mother Road. Farther still down that road is the site of another Route 66 Drive-In, in Williams, Arizona, which is due to open later this year. It will join a score of new drive-ins built around America since the low point of the 1980s, not to mention others in Russia, Spain and Australia.

But the 1950s, and Route 66, were not the origin of drive-ins. They were invented by Richard Hollingshead, who experimented with projecting films on to a bedsheet in his back yard and broadcasting the sound track from speakers nailed to trees. In the early 1930s Hollingshead was granted a patent. The first drive-in opened in Camden, New Jersey, in 1933, on a site now unmarked.

Most of today's drive-ins have only one or two screens, but others have as many as an indoor multiplex (there is a 13-screen one in Florida). The largest can hold up to 3,000 cars, the smallest a friendly 50. The main change is the near-disappearance of the in-car speaker, which hung on the driver's-side window; now the sound comes through the car's radio. Old in-car speakers are things you collect to show off at home.

Memories are one reason for the rebirth of drive-ins, whether they are childhood memories of watching films from the back seat in your pyjamas, or teenage ones of your first fumbling sexual encounter: either way, of a simpler world. But now the drive-ins are also pulling in a new generation, which can discover a quintessential American charm under the star-spangled sky.

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Lexington

The governor who gave away the store

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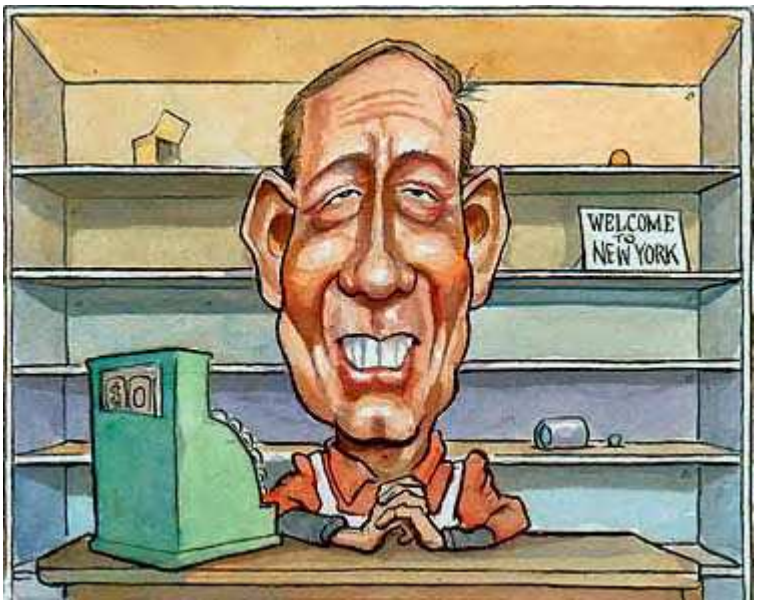

George Pataki may have remembered virtue too late

THE governor of New York state, George Pataki, has rediscovered his tax-resistant roots. In the state's capital, Albany, he is leading a movement to stop its famously dysfunctional legislature extracting from the people several new sorts of tax which, though admittedly useful in sorting out the current fiscal crisis, could damage economic growth for years to come and in some cases—such as a proposed tax on every share traded—might destroy the state's most important business. His new sternness, it is widely believed, may enable Mr Pataki to leave New York in a glow to join the Bush administration, and let somebody else clean up the state's mess.

If it works, Mr Pataki would like to be remembered as the man who held the line in a tough time. In fact, he will be taking the credit for a disaster he was largely responsible for creating.

Already, for many New York politicians with similar aspirations, Mr Pataki is something of a hero, which may help to explain why no one in the state government truly wants to confront the terrible choices that come with a wrenching deficit. Faced with a budget deadline this week, and the need to take at least some decisions, the legislature last week made a Pataki-like move: it went on holiday. Mr Pataki, being Mr Pataki, expressed shock and dismay, which no one took seriously.

As with many men who have held office for many years, Mr Pataki's weaknesses emerged only over time. After his election as a genuinely cost-conscious reformer in 1994, his first two years as governor were among the best in the state's history. He cut spending in every way imaginable, says E. J. McMahon, a senior fellow at the Manhattan Institute, a think-tank Lexington tends to agree with. In his best year, his second, Mr Pataki reduced the total budget by a mere 0.6%, a figure that looks trivial; but by the state's standards it was actually quite remarkable. It also, apparently, exhausted Mr Pataki's conservative instincts. In every year since then the budget has risen faster than inflation.

Some of this could be excused by the economic boom: New York was growing richer, and inevitably the public sector wanted to share in the new wealth. But it became unjustifiable when Mr Pataki campaigned for a third term, in early 2002. New York was already suffering from the after-effects of the September 11th terrorist attack, as well as the collapse on Wall Street. Businesses had begun shedding workers. The

few financial firms that were avoiding lay-offs had stopped growing. Even the keenest optimists could hardly argue that tax revenues would go on moving upwards; realism pointed to a sharp drop.

It was the state's misfortune that, at precisely this moment, the main candidates trying to replace Mr Pataki as governor were party hacks whose assertions of fiscal probity were never taken seriously. It was its even greater misfortune that Mr Pataki chose to meet their challenge by deciding to be as fiscally irresponsible as his opponents, under the (correct) theory that his supporters would never support his opponents, but his opponents' supporters could be bought.

The months between September 11th 2001 and Mr Pataki's 2002 re-election, and a period after that, were a financial disaster. The politically powerful health-care workers' union received a huge new contract. Teachers got a rise, police sweeter pensions; prison guards were given costly new health benefits, clerical employees extra sick days. The list goes on. Most of these unions ended up as Pataki supporters. Asked during the campaign about the cost of his generosity and the likelihood of looming deficits, Mr Pataki would note, accurately, that he had dealt with deficits in the past.

What had changed was that, this time round, the deficits were his, and he had chucked away his deficit-cutting credibility. Worse, his preferred approach often amounted to little more than sticking other people with the bill. New York City is particularly hurt by this technique. The city has a huge hole in its own budget. Yet, after adding various items to the city's burden, Mr Pataki now proposes to reduce further the amount of tax revenue the city's residents get back from what they pay to the state.

Dreaming of Giuliani

Whether Mr Pataki will eventually be held to account for these goings-on is not at all clear. The cynics, who include other governors, contend that he is safe because the next gubernatorial election is more than three years away, and he is now showing signs of a rediscovered rectitude—and, anyway, he may slip off to Washington to join the Bush team. There is also the curious fact that, though America's state governors have great power over taxes, it is usually local municipal leaders on whom the voters' wrath descends. They are the ones with the grim task of closing fire stations and firing rubbish collectors and teachers.

But signs have recently emerged that Mr Pataki's luck may be running out. His opinion-poll popularity has dropped to a seven-year low. An attempt to seize the federal money New York City was given for anti-terrorism efforts was an embarrassing failure. And, for odd historical reasons, Mr Pataki, not the city, occupies the pivotal position in the reconstruction of the World Trade Centre. Because of a series of blunders on his watch, this symbolically majestic project has stalled.

Some people think that, the worse conditions get, the better the chances of the city's former mayor, Rudolph Giuliani, coming back to political power, this time as governor of the state. Mr Giuliani was at his best when times were at their worst. But, like Mr Pataki, his authority also flagged over time, even though he was reinvigorated by his admirable conduct after the terrorist attack at the very end of his tenure. The ultimate lesson, perhaps, is that nobody is capable of governing well for long. As the recession goes wearily on, Mr Pataki will not be the only governor of an American state to be looked at with cold eyes.

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Latin America

Wanted: a new regional agenda for economic growth

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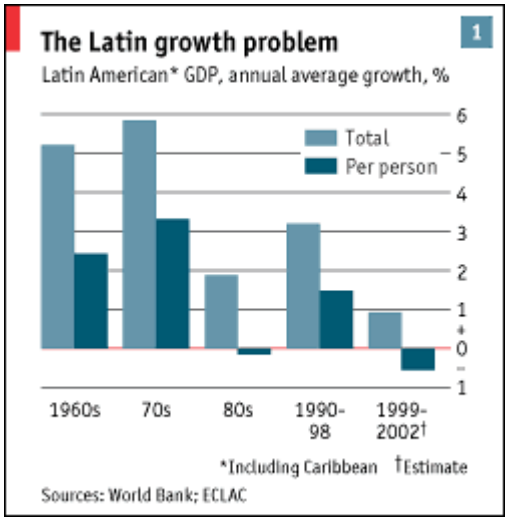
From The Economist print edition

Reuters

The "Washington consensus" is a damaged brand. But its chief mistake was in not pushing Latin American reform far enough

SIX months ago, such was the gloom about Latin America that investors and international finance officials were asking whether it would be Brazil, the region's giant, or one of three or four of its neighbours, that would be next in line to follow Argentina into debt default. Now, that pessimism looks wildly overdone. Brazil has stepped back from the brink: its currency and its bonds have rallied strongly, after its new centre-left government committed itself to tight fiscal and monetary policies. With risks and sluggishness elsewhere in the world economy, money has trickled back into Latin America. Taken as a whole, the region should grow by at least 2% this year and 3.5% next year, according to the World Bank. Even Argentina, after a four-year slump, is growing again. So panic over—but not the debate about what has gone wrong.

Officials at the IMF and the World Bank caution that while the short-term outlook has brightened, Latin America faces deep-rooted obstacles before it can achieve high and sustained growth. And a still-anaemic recovery cannot assuage the deep sense of dissatisfaction left behind by Latin America's recent travails (see chart 1). Last year, the region's GDP shrank by 0.6%, after growth of just 0.4% in 2001. Income per person in Latin America now stands 2% below its level of 1997, according to the UN Economic Commission for Latin America (ECLAC). Progress in reducing poverty has halted (see chart 2). This amounts to a "lost half-decade", says ECLAC, harking back to the "lost decade" unleashed by Mexico's 1982 debt default.

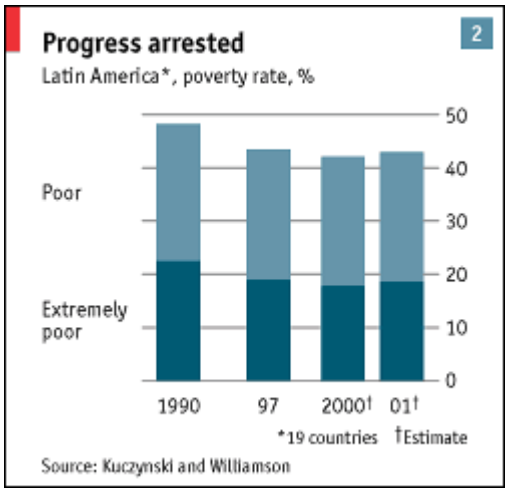


This slump has been all the more painful because of high hopes that Latin America was finally on course to catch up with the rich world. The region grew fast in the 1960s and 1970s, when many countries industrialised; but most Asian countries grew faster still. In Latin America, the growth was marred by exaggerated protectionism and bloated, but inefficient, states, culminating in the debt crisis. But a dozen or so years ago, most Latin American countries, many of them newly democratising, changed course: they implemented a set of free-market policy reforms. These came to be known as the "Washington consensus" (a term coined in 1990 by John Williamson, of

the Institute for International Economics, a think-tank in that city). At first, the results were promising: inflation, a chronic Latin vice, was slayed; growth surged again, and poverty began to fall.

Subsequent recessions and financial crises, especially severe in South America, have wiped away some (in places much) of those gains. They have also prompted much heart-searching as to what has gone wrong. Many Latin Americans conclude that the answer is the “neo-liberal” reforms themselves. These are held not just to have failed to deliver sustained growth, but to have made the region more vulnerable, and to have increased unemployment, poverty and inequality. Privatisation in particular has become deeply unpopular: privatisations of a water firm in Bolivia in 2000, and of an electricity generator in Peru last year, were scrapped after riots. As a result of all this, some political pundits assert that Latin America is sinking back into populism and/or anti-market leftist nationalism. And they wonder whether the reform process will survive political change.

Moisés Naím, the editor of *Foreign Policy* magazine and a former Venezuelan trade minister, was surely right when he declared last year that the “Washington consensus” is a “damaged brand”. But are the critics right that the reforms failed, and if so, why? Is the “Washington consensus”, in fact as well as rhetoric, being abandoned by the region's governments? If so, what might (or ought to) take its place?



Some of these questions have been addressed in a new book by a group of (mainly Latin American) economic reformers, co-edited by Mr Williamson and Pedro-Pablo Kuczynski, a former Peruvian economy minister*. But before considering their proposed revisions to the reform agenda, another question must be asked. What did the original “Washington consensus” really mean? Not what is often claimed by its critics, for whom it quickly became a synonym for the “neo-liberal” (more accurately, neo-conservative) agenda of the governments of Ronald Reagan and Margaret Thatcher. Mr Williamson points out that his original article was “a reporting job” rather than a manifesto, in which he tried to sum up (for a conference held in Washington, DC) in a 10-point list a reform agenda that was emerging among Latin American policymakers (the article can be found at www.iie.com/jwilliamson.htm). His list did not include monetarism, supply-side economics, or a minimal state. What it did comprise, in summary, was fiscal and monetary discipline, opening up to foreign trade and investment, and large-scale privatisation and deregulation.

To the critics, the prime exhibit in the case against the “Washington consensus” is Argentina's dreadful slump. Yet that, too, is a misreading. What brought Argentina down was the combination of its fixed exchange rate, which made its currency uncompetitive, with persistent fiscal deficits. Not only were these mistaken policies; they were in explicit contradiction with Mr Williamson's list.

Elsewhere, the reforms did bring lasting benefits. In Chile, an early reformer, fast growth saw poverty halved, to 23%, between 1987 and 1996. Overall, macroeconomic management in the region improved dramatically compared with, say, the 1970s. There was social progress, too (see table 4). Partly because governments pulled back from running steelworks and factories, they spent more on education and health. In some countries, such as Brazil and Mexico, new, targeted, anti-poverty programmes were introduced. Where income inequality worsened, it was mainly because of recession, not reform.

Privatisation was not the blanket failure painted by the critics. There is little argument over the sale of state industries. Public utilities are more controversial. In some countries, their sale was badly handled: either tainted by corruption, or by private monopolies, or because regulation has been poor. But private provision of telephones, electricity and water has vastly increased their coverage and quality. However, that has generally come at a price: as subsidies were withdrawn, tariffs often rose, before later starting to fall.

None of this is to deny that, overall, the return from reform has been disappointing. There were several reasons for that. Most relate to long-standing Latin American weaknesses. First, there was the region's chronic vulnerability to balance-of-payments crises. Second, the basic macroeconomic reforms were not fully implemented. In particular, most governments failed to save in good times, and piled up debts. Third, it was quickly accepted that if macroeconomic reforms were to produce higher investment and thus more jobs, they needed to be complemented by “second-generation” or institutional reforms. These range from improving education to bankruptcy proceedings. They are easy to list but hard to do. And fourth, some reformers, as well as critics, argued that in a region of deep income inequality, growth

alone would not swiftly reduce poverty.

The single most important failing was the region's dependence on volatile capital flows. Growth before 1997 coincided with record capital inflows, some attracted by privatisation. As a result, currencies became overvalued, hurting exports and local producers, and leading to big current account-deficits. A first hiccup came in 1994-95, with Mexico's devaluation. Then, in mid-1998, emerging-market investors suffered big losses when Russia defaulted. For South America, that triggered what Guillermo Calvo, the chief economist at the Inter-American Development Bank, has called a “sudden stop” in capital flows (see chart 5). To compensate, governments had to adjust the real exchange rate (ie, either devaluing the currency or making output cheaper through price deflation).

Since most countries had beaten inflation by pegging their exchange rates, that was difficult (especially so for Argentina, which had fixed its peso by law). In many countries, most savings and debts were in dollars. So devaluation risked financial chaos. To make matters worse, governments' debts became more expensive to service. So they had to cut other spending, exacerbating recession.

Lessons from the adjustment

Now, most Latin countries have competitive exchange rates. “The adjustment has happened. It was very powerful, but it's over,” says Mr Calvo. The challenge, he adds, is to develop institutions and mechanisms to allow the orderly transfer of capital from north to south. One answer would be a central bank for emerging markets, to ease adjustment by providing liquidity. But there is no political will for that.

So attention is focusing on other “crisis-proofing” measures. Exports are vital. Mexico and Chile were the only two of the region's larger countries to register double-digit annual increases in the volume of their exports throughout the 1990s. Not coincidentally, they escaped the worst of the turmoil of 1998-2002. So further trade opening would help. But the United States is offering less generous terms in the talks on a 34-country Free-Trade Area of the Americas than it did to Mexico in NAFTA.

Healthier and more literate 4

Social indicators

Country	Approx year	Life expectancy at birth years	Infant mortality to age 5 years per 1,000 live births	Adult literacy %	Access to safe water, %
Argentina	1960	65.2	72	91.0	51
	1980	69.6	38	94.4	58
	2001	74.1	19	96.9	94
Brazil	1960	54.9	177	61.0	32
	1980	62.7	80	74.5	56
	2001	68.3	36	87.3	87
Mexico	1960	57.3	134	65.0	38
	1980	66.8	74	82.2	50
	2001	73.4	29	91.4	88
Latin America	1960	56.5	154	74.0	35
	1980	64.7	79	79.9	53
	2001	70.6	34	89.2	86
East Asia	1960	39.2	198	na	na
	1980	60.0	82	68.8	na
	2001	69.2	44	86.8	76

Sources: Kuczynski and Williamson; World Bank

For export growth, maintaining a competitive currency is important. So most countries are likely to stick

to floating exchange rates. Adopting the dollar may make sense for small and open countries in Central America and the Caribbean. For Argentina, it would be “insanity”, says Mr Williamson. He argues that preventing overvaluation may also require a return to selective controls on capital inflows (not outflows, as in the 1970s). These worked well for Chile. In the 1990s, the IMF pushed strongly for Latin American countries to lift all capital controls. Many academics now believe this should have been done more gradually.

Another priority is to stimulate saving and borrowing in local currencies. The main hope here is pension reforms, which have created growing investment funds in Latin American countries. Again, Chile and Mexico are leaders. Chilean firms can borrow long-term in pesos; Mexican companies switched some $4 billion in foreign debt to local currency last year.

The second aspect of “crisis-proofing” concerns fiscal policy. Governments have begun to write fiscal discipline into law. But many are poor at restraining spending in good times. A more effective fiscal policy would involve surpluses when growth is high, and borrowing only to finance public investment. It also requires reforms of tax and provincial finance. In many countries, local governments depend not on local taxes but on transfers from the centre, which rise along with government revenues. But as Enrique Iglesias, the president of the Inter-American Development Bank, notes, there is much resistance to counter-cyclical fiscal policies, stemming from a political perception that they help the next government.

Apart from crisis-proofing, Mr Kuzcyinski and Mr Williamson make recommendations on three other sets of issues. The first is completing “first generation” reforms. They note that least progress has been made in the labour market. Across the region, unemployment and “informal” jobs both grew during the 1990s. They propose reforms to severance pay and ancillary benefits, to reduce payroll taxes.

The second item is institutional reform. Many development economists now argue that institutions are crucial for growth. Here, the reform agenda is a diffuse one, including: a career civil service; better banking supervision; bankruptcy laws that allow banks to collect loan guarantees; and what Mr Williamson calls “industrial policy's modern relative”, a national innovation system for new technology.

Thirdly, the “new Washington consensus” includes some policies designed to reduce inequality. Recent research suggests that inequality in developing countries itself tends to reduce growth: savings and investment become the preserve of a small rich elite. While warning of the potential cost to economic efficiency of actions to improve income distribution, Mr Williamson concludes that “in a highly unequal region such as Latin America, opportunities for making large distributive gains for modest efficiency costs deserve to be seized.” To that end, he suggests more effort to collect income tax, and higher property taxes. But more emphasis goes to helping the poor gain assets, such as education and property titles, and through land reform and microcredit programmes.

Which way forward?

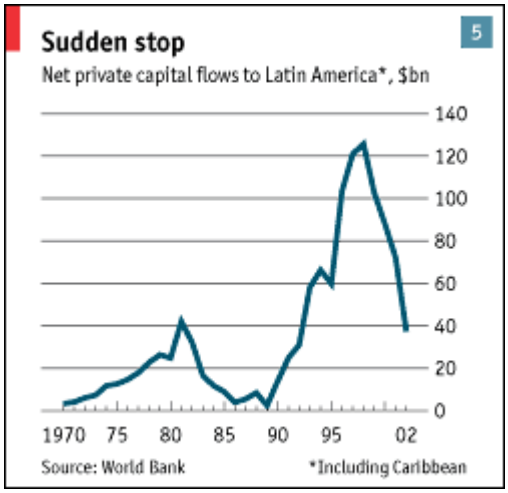
The way forward, Mr Williamson concludes, is to “complete, correct, and complement the reforms of a decade ago”, not to reverse them. But can this new formulation command a consensus? However cautious, references to selective capital controls, the role of the state, and income distribution all point to the reform agenda moving towards the centre. Some free-marketeers will object.

On the other hand, the region's new centre-left governments, such as that of President Luiz Inácio Lula da Silva in Brazil, might agree with much of this new agenda. One interpretation of the past six months in the region is that the left has signed up to the “Washington consensus”, at least in practice. Lula's government has not only tightened monetary and fiscal policy, it is pursuing the structural reforms espoused by its predecessor. This is not simply tactical, insists a member of Mr da Silva's inner circle of advisers. The government's targets include doubling the efficiency of existing social spending in four years, and raising exports by 10% a year.

But there is still plenty of room for disagreements. Perhaps the biggest is on the role of the state. “We don't want to renationalise anything, nor strengthen the state in a traditional sense, but we do want a state that plans things that are fundamental for a development project,” says José Genoino, the president of Lula's Workers' Party.

That position is echoed by José Antonio Ocampo, ECLAC's boss.

“The ‘Washington consensus' wanted to think that growth would be automatic, but it needs active public policies,” he says. He argues that while open trade has made some firms very competitive, these have become enclaves, with few links to the rest of the economy. He wants governments to adopt “technology policies”, “strategic visions” for different economic sectors, and to help small and medium firms. He notes that Chile, the reformers' darling, employed such policies. He adds that two ways of doing all this would be through government procurement and state-owned banks—both anathema to the reformers. Two other areas of controversy are labour reforms and further trade opening.



Few argue for turning the clock back to the 1970s. But there is a risk of re-regulation by a thousand obscure decrees and of incremental government hand-outs in the name of industrial policy, aggravating the low productivity and lack of competitiveness that dog the region. On the other hand, by grounding its recommendations more clearly in the region's economic history and institutional realities, the “new Washington consensus” has moved closer to becoming a Latin American product. How much of a consensus it will command, and whether it will guide the region back to growth, remain to be seen.

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* “After the Washington Consensus: Restarting Growth and Reform in Latin America”. Institute for International Economics, 2003.

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About sponsorship

Kashmir

The deceptive hand of friendship

Apr 24th 2003 | SRINAGAR
From The Economist print edition

To foreign relief but local scepticism, India and Pakistan both talk about talks

Get article background

TWENTY years ago, in the Sher-i-Kashmir cricket ground in Srinagar, India endured a humiliating rebuke. Its team's defeat by the West Indies in a one-day match was greeted by the Kashmiri crowd with raucous glee. In a Muslim-majority state also claimed by Pakistan, but where many hanker after independence, it was an important step on the path to civil war. Choosing the same venue to become, on April 18th, the first Indian prime minister to address a big public rally in Srinagar since 1987, Atal Behari Vajpayee made a peacemaker's speech, presented as marking another turning-point, this time towards dialogue and reconciliation.

There was, however, little immediate cause for optimism. The killing continued in a war that has scarred Kashmir for 13 years and claimed nearly 40,000 lives, according to India (twice as many, say its opponents). On April 22nd, six civilians died in an explosion in the Pulwama district of south Kashmir and, elsewhere, Indian forces killed 17 alleged militants.

So the rally was a bold gesture, requiring massive security and bullet-proof glass. That, said Abdul Ghani Bhat, chairman of Kashmir's separatist alliance, the All-Party Hurriyat Conference, “is how it is in a colony.” The prime minister's audience of some 20,000 had been bused in by the party of Kashmir's chief minister, Mufti Mohammed Sayeed, installed after elections last September. Many were disappointed by the speech, because it contained no offer of aid for a war-crippled economy, and no concrete plan for peace.

The Hurriyat, which boycotted the elections, staged a “silent referendum” on Mr Vajpayee's visit by ordering a *hartal*, a general shutdown of Srinagar. It was observed almost universally. But the turn-out at the rally allowed both sides to claim victory in the battle for public opinion. Mr Sayeed clucked nervously over the crowd, like a headmaster worried about his school's behaviour on Founders' Day. But Mr Vajpayee was talking far above their heads anyway, to an audience in Islamabad and in Washington, DC. Appealing for talks with Pakistan on all issues, including Kashmir, he held out the “hand of friendship”, in the hope of better relations between the two neighbours, which last year came close to their third war over Kashmir.

Mr Vajpayee's speech glossed over India's oft-repeated condition for any improvement in relations: that Pakistan make good its pledges to stop the infiltration of armed militants into Indian-controlled Kashmir from its side of the line of control that divides the state.

India, however, soon made clear that it has not dropped this demand. It insists—and America accepts—that Pakistan has not stopped “cross-border terrorism”. As recently as last month, India blamed Pakistan-trained fighters for a particularly cold-blooded massacre of 24 civilians from the Hindu minority in the village of Nadimarg. Its anger at that outrage was fierce enough to draw an unprecedented joint statement from Britain and America, urging Pakistan to restrain the militants, but both sides to resume dialogue.

India's foreign minister, Yashwant Sinha, bridled at the “gratuitous and misplaced advice”, and caused further alarm by describing Pakistan as more of a fit case for pre-emptive action than was Iraq. Indian spokesmen stressed that he was making a theoretical point, not a military threat. But India and Pakistan are nuclear powers, so this sort of talk rattles nerves.

Although Mr Vajpayee announced no shift in policy in Srinagar, his stress on dialogue rather than terrorism was seen as encouraging. Pakistan rejected the allegations, but responded positively. After all, the purpose, presumably, of its connivance in cross-border terrorism is to exert pressure on India to enter talks.

Mr Vajpayee's deeper message, however, was less welcome in Pakistan. By speaking in Srinagar, he was demonstrating his government's view that Kashmir remains an integral part of India, and that he believed he was talking from a position of strength. Mr Sayeed's government—the outcome, unusually, of an unrigged election—is more popular than previous administrations, having promised to adopt a “healing touch” by, for example, freeing some detained separatists.

The fresh approach includes a dialogue with the central government. On April 22nd, Delhi's latest interlocutor for Kashmir, N.N. Vohra, pitched up in Srinagar, and began talks with what India calls “mainstream” politicians. There were hints that he might even be open to meeting the Hurriyat. Mr Bhat, however, said there would be no talks “at gunpoint”, which did not cover the future dispensation of Kashmir—the one topic India will not discuss with the Hurriyat.

The Hurriyat, in the words of Muzaffar Beg, the finance minister in the new state government, “takes its cue from Pakistan, even if it does not take dictation.” But moderate separatists, such as Shabir Shah, also see little improvement in the new government, and Mr Vohra's visit as a futile exercise. They question how he, a former top civil servant in the Home and Defence Ministries, can tackle the core issue—Kashmir's demand for self-determination.

Pakistan, too, may find that, even if dialogue with India resumes, there is, on Kashmir, little to talk about. Its “liberation” is a central national goal for Pakistan. No government could easily negotiate it away. The present regime, with a tenuous popular mandate and under constant attack from Islamists, would presumably find it even harder than most. As in the past, talks, if they happen, may serve only to sharpen differences. Meanwhile, with the passes into Kashmir now free of snow, violence there is only likely to increase.

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Pakistan

Too many jobs

Apr 24th 2003 | LAHORE
From The Economist print edition

Musharraf is asked to surrender some of his powers

AP

Will Musharraf get his kit off?

BARELY six months after a general election that was supposed to give the country a degree of democratic legitimacy, Pakistan is slipping back in to its raucous, dysfunctional ways. The opposition in the national parliament refuses to recognise General Pervez Musharraf, the country's army chief, as the legitimate president. It wants him to scrap the extraordinary powers he has heaped upon himself, including the right to fire the cabinet and dissolve parliament. It also says that he cannot be both army chief and president. Parliament has been adjourned on four occasions by the speaker after the opposition screamed “Go, Musharraf, go!”, and refused to allow any business to be done.

Using an instrument called the “legal framework order” (LFO), General Musharraf last year amended 29 clauses of the constitution to legitimise an earlier, highly dubious referendum to make himself president, and to hold a general election which many believe turned out to be unfair. Now the opposition parties, led by a fiery six-religious-party alliance called Muttahida Majlis-i-Amal (MMA), say that General Musharraf must get parliament to validate the LFO by a two-thirds majority, as required for constitutional amendments. This is an impossible task given the slim majority of the pro-Musharraf Pakistan Muslim League-Quaid (PML-Q) in both houses of parliament. Failing that, the MMA says, he should ask parliament to elect him as a civilian president, retaining some but not all of his current powers, in exchange for taking off his army uniform.

Government spokesmen cunningly claim that a parliament that owes its very existence to the LFO cannot now challenge it. General Musharraf could refuse to concede the opposition's demands, suspend or dismiss parliament and try to carry on the business of government by decree. That, though, would be an admission that the system he devised had failed. The opposition parties would probably clog the courts with writs challenging his orders. They would organise mass protests, something they have done successfully against the war in Iraq. Alternatively, General Musharraf could agree to give up being the army chief at some date in the near future. But this would deprive him of his means to run the country and make him hostage to the politicians he detests.

On April 21st he said gruffly that he would not address an uncivilised parliament in the current circumstances. He insisted that the LFO was part of the constitution and the opposition would have to accept that sooner or later. But his prime minister, Zafarullah Jamali, is treading a different path. The ruling PML-Q has invited all the opposition parties for talks on the framework order. There is no deadlock and parliament will not be dissolved, Mr Jamali tells reporters. It is claimed that out of the 29 amendments General Musharraf made to the constitution, there are only two that are contentious. These deal with when the general will give up the job of army chief and what powers he will retain as a civilian president.

The Jamali government is also trying to split the leadership of the MMA. It has offered not to oppose the nomination of the pragmatic Maulana Fazlur Rehman as leader of the opposition in parliament, a slot dearly coveted by Qazi Hussain Ahmad, a firebrand in the MMA.

General Musharraf may take some comfort from the support he is getting from the army's powerful corps commanders in his tussle with the opposition. This has led pundits to hark back to the general's words last August when he unfurled the LFO. He was asked what would happen if the next parliament refused

to accept it. He shrugged his shoulders and said, “Either I will stay or parliament will stay.”

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Indonesia

An ace in the hole

Apr 24th 2003 | JAKARTA
From The Economist print edition

Cracking down on terrorism

Get article background

AFTER months of procrastination, Indonesia's campaign against the alleged ringleaders of Islamic terrorism in South-East Asia has finally reached the courts. Abu Bakar Basyir, a revered Islamic cleric or spiritual leader of al-Qaeda's regional arm, Jemaah Islamiah (JI), depending on your point of view, went on trial on April 23rd for treason and immigration offences.

AP

In the dock

In their opening statement, the prosecutors claimed that Mr Basyir, 64, the headmaster of the orthodox al-Mukmin Islamic boarding school in the central Java city of Solo, had tried to topple Indonesia's legitimate government and establish an Islamic caliphate in its place. Part of this mission, it was alleged, was the bombing or attempted bombing of 38 churches on Christmas Eve 2000 in which 19 people were killed. Mr Basyir also reportedly wanted to attack western interests in Singapore but cancelled the operation after many of his alleged operatives were arrested in November 2001.

The immigration offences relate to the forging of letters to obtain residence permits after Mr Basyir returned from Malaysia in 1999, where he had fled 14 years previously to escape incarceration on subversion charges. The cleric denies all the charges, and indeed that JI even exists. Among Mr Basyir's alleged co-plotters are two of the main suspects in last October's Bali bombing which killed 202 people. But the fiery cleric, who was arrested days after the tragedy, has not been linked to the blast, despite the widespread belief that he approved the operation.

Mr Basyir's fate will rest to a large degree on whether the court allows as evidence statements from Omar al-Farouq, an alleged al-Qaeda operative being detained by the Americans who implicated him in the church bombings, and from a JI suspect currently detained in Singapore, Faiz Abu Bakar Bafana. A conviction is thus no formality, but the tide of public opinion is certainly moving against the defendants. For even though Mr Basyir has not yet been charged with the Bali attack, his appearance in the dock is far from unconnected to the bombings. Ever since the devastation—economic as well as human—on the island, radical Islam in Indonesia has become increasingly unpopular, to the point where tackling it head on presents little threat to the strongly nationalist president, Megawati Sukarnoputri.

Fifteen months ago Mr Basyir, voted man of the year last year by one of Indonesia's most popular

magazines, was cheerfully able to violate the constitution by calling for Miss Megawati's ouster because of her sex. Now he is behind bars and on trial. The president's strong stance against the war in Iraq, which left little room for Islamic opponents to attack her, has further bolstered her position. Accusations from Mr Basyir's dwindling ranks of supporters and other elements on the extreme fringe that she is being un-Islamic by prosecuting Mr Basyir now fall largely on deaf ears.

Miss Megawati has good reason to try and rid herself of the turbulent cleric, which a conviction and life sentence would effectively do; it looks good internationally, and it is likely to bolster her re-election chances next year. For months before the Bali bombing Miss Megawati was criticised for failing to face up to the reality that Islamist terrorists were active in her country. Now she has gone even further than her once critical neighbours, Singapore and Malaysia, who rely on draconian Internal Security Acts that permit detention without charge, let alone trial.

Her party lieutenants are likely to be as happy as the foreigners. Prosecuting radical Islamists not only shows strong leadership, which should stand her in good stead come polling day, but will help to neutralise an obvious electoral irritant. What a conviction will not automatically do is end the Islamist terrorist threat. As the arrest of 18 alleged JI operatives in Indonesia this week has shown, several active cells are believed to be still operating. A few strategically timed bombs could badly damage Miss Megawati's re-election chances. If she had an Iraq-style pack of “wanted” cards, Mr Basyir would certainly be one of the aces. Scooping up the whole deck, though, remains a distant dream.

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Property prices

Through the roof in Australia

Apr 24th 2003 | SYDNEY
From The Economist print edition

It cannot last, say the experts

RUSSELL CROWE, a Kiwi-born actor who calls Sydney one of his homes, recently smashed yet another of the city's property-price records when he paid almost A$14m ($8.7m) for an apartment overlooking Sydney Harbour. True, it is no ordinary apartment. His neighbours in the Finger Wharf, a redesigned shipping pier built in 1914, are some of Sydney's richest people. Nevertheless, a few years ago such a price would have been reserved for one of Sydney's stateliest waterfront mansions. Mr Crowe himself recently sold one of them, Berthong, in Elizabeth Bay, for almost A$3m more than he paid for it 18 months ago. Such is the momentum driving Sydney's house-price boom that few gasped at this news.

House prices have risen across Australia by 93% over the past decade, by 116% in Sydney and by even more, 130%, in Melbourne, which had bigger gains to make after coming out of an economic slump in the early 1990s. The boom has now gone on for so long that some forecasters are worried, particularly over the unprecedented level of debt with which Australians are fuelling it. Over the same decade, Australian household debt has soared from 56% of household income to 125%, higher than that of North America and most of Europe. Borrowing to buy houses has fed most of this increase. According to the Reserve Bank, Australia's central bank, the biggest rise has been in the number of people borrowing to buy second or third properties in the hope of making a big capital gain.

Interest rates have stayed low for ten years, and banks and other institutions have competed to offer cheap loans. A federal government grant offered as an election sweetener two years ago to help young people buy their first homes has also contributed. So has a low Australian dollar which has brought in speculative capital from Asia and Europe.

Ian Macfarlane, the Reserve Bank's governor, delivered a warning on April 3rd suggesting that the debt binge had gone too far. J.P. Morgan Australia Securities argues that house prices have reached unsustainable levels. Few people seem worried. Debbie Donnelley, an agent with Di Jones Real Estate, which operates in Sydney's exclusive eastern suburbs, sold a property 18 months ago for A$300,000 more than many thought it should fetch; she sold it again recently for A$200,000 more.

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Malaysia

Try, try, try again

Apr 24th 2003
From The Economist print edition

Anwar Ibrahim loses another appeal

Get article background

SOMETHING about Anwar Ibrahim brings out the ground-breaking urges of Malaysia's otherwise cautious judges. In 1999, one found him guilty of corruption even though no money was alleged to have changed hands—the normal standard for prosecution. In mid-April, others upheld his conviction for sodomy on the testimony of just one witness, another legal first. That decision was all the more unprecedented since the lone witness changed his mind twice about the year in which the alleged offence occurred before deciding that he could not provide any specific date at all. Now Mr Anwar finds himself serving the resulting jail sentence even though it is standard practice to release a defendant on bail until all appeals have been exhausted.

Mr Anwar argues that his real offence is to have fallen out with Mahathir Mohamad, Malaysia's imperious prime minister. Mr Anwar had been Dr Mahathir's likely successor until the two squabbled, mainly over how to handle the Asian economic crisis in 1998.

Mr Anwar soon found himself out of a job and in court, charged with sodomising his wife's driver and then abusing his office in an attempt to suppress the scandal. He received a six-year sentence for corruption and a nine-year one for sodomy (which is considered a grave crime in Malaysia). What with the failure of all appeals on the corruption charge, and the Court of Appeal's confirmation last week of the sodomy conviction, Mr Anwar has just one more chance of exoneration: an appeal to the Federal Court, Malaysia's highest, on the sodomy charge.

Meanwhile, time is ticking by. Since the government routinely knocks a third off all sentences for good behaviour, Mr Anwar has already completed his prison term for corruption while the wheels of Malaysian justice go grinding along. With the final appeal still pending against the sodomy conviction, his legal team argues, he should now go free on bail.

But the Court of Appeal refused to hold the usual quick hearing for bail and insisted on a written application instead. In the meantime, it revoked the bail of Mr Anwar's co-defendant and adoptive brother, Sukma Darmawan. Nonetheless, Karpal Singh, one of Mr Anwar's lawyers, hopes for a ruling within the next few weeks. Since Mr Sukma went free on bail during his first appeal, Mr Singh argues, it would only be consistent for him to do so during his second, too. And if Mr Sukma receives bail, then Mr Anwar surely has an ever stronger case, since he suffers from a back problem and urgently needs an operation.

If the Court of Appeal refuses bail, and the Federal Court turns down his last appeal, Mr Anwar will have to stay in prison until April 2009. Even after his release, he will not be able to take part in politics for another five years.

Many Malaysians believe it would be too embarrassing for the judiciary to back down and let Mr Anwar go free, even after Dr Mahathir's scheduled retirement this October. But there are a brave few who suggest that the prime minister's designated successor, Abdullah Badawi, might like to signal a change of climate by presiding over Mr Anwar's release. Or the Federal Court might simply ignore the politicians' preferences altogether and judge the case on its merits. That would really set a legal precedent.

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Japan

Matsui, pride of the Yankees

Apr 24th 2003 | TOKYO
From The Economist print edition

Fans fly out to see a “sayonara” hit

AP

Sayonara, baby

THE possibility, however remote, of getting SARS will deter many Japanese from going abroad for their Golden Week holidays, which last roughly from April 26th until May 5th. But baseball supporters are a breed apart. It will take more than a virus to stop them making a trip to see the Japanese stars in action in America's major leagues. The most popular excursion for the Japanese visitors will include a three-game showdown in New York featuring Japan's Hideki Matsui of the Yankees, and a handful of Japanese stars who play for the Seattle Mariners.

The best-known Mariner, Ichiro Suzuki, left Japan's baseball league to join Seattle in 2001. Many Japanese supporters were crushed when Seattle was knocked out of the preliminary games for the World Series that year. Now the wiry Mr Suzuki has been eclipsed by the power-hitting Mr Matsui, once a star with the Yomiuri Giants and now with America's most famous baseball team. On April 8th, he hit a “grand slam” (a home run with the bases full) in his first game at Yankee Stadium. A few nights later he delivered his first “sayonara” hit, a game-winning run.

Traditionally, the Japanese have rated teamwork above the skill of the individual. But with the success of Japanese baseball players in the United States, and of their soccer players in Europe, sports fans are now more interested in the adventures of players overseas than they are in the progress of teams at home. The evening television news provides a rundown of how Japanese players are performing in their latest games, giving particular attention to the mighty slugger Matsui. Most newspapers publish statistical tables that show how Japanese players are doing in America. The *Asahi Shimbun* has revamped its sports section to highlight Mr Matsui's doings.

With many local economies in the United States flagging, towns might consider inviting an entire Japanese baseball club to fly out to play American baseball. Japanese fans would no doubt cross the Pacific in droves all summer long to support their club. They would probably fly on Japanese airlines, but think of all the shopping they would do in America.

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Postwar Iraq

Ferment of freedom, fear and fantasy

Apr 24th 2003 | BAGHDAD AND KARBALA
From The Economist print edition

AP

Iraqis are excited, confused and scared by their post-Saddam future. But many want the Americans out too

Get article background

THE bronze boots of a toppled statue still dominate Ferdous Square, the austere roundabout now reborn as a shambolic market plus Hyde Park Corner. Squatting vendors of tea and kebab jostle soapbox ranters hawking high ideals and dirty calumny. Owners of satellite phones milk this sole link to the outside world at a price per minute that a schoolteacher might hope to earn in a month, if only schools were open. Across the way, supplicants throng the barbed-wire ringing the dreary old Palestine Hotel, now a makeshift citadel for American officers, Iraqi oppositionists and journalists, the trio who are the city's new ruling powers, the dispensers of jobs, aid and information.

Above all, for Iraqis who have endured four decades of brutally enforced silence, the square has become a market for stories. The scores who return daily to wave faded photos of those long lost have sad tales to tell. “Where is my brother?” reads the simple message on one placard. A bearded young man gestures urgently at his misshapen right ear. It had been surgically sheared as punishment for deserting the army, and he wants to know if the Americans can surgically restore it. Whispers to your correspondent promise, at a price, to disclose the whereabouts of underground dungeons and mass graves, hoards of anthrax, or fugitive officials including the vanished tyrant himself.

Baghdad's main shopping streets remain eerily dark and shuttered, but stolen booty clutters the sidewalks of outlying slums. Things like pipes, electrical fittings and office furniture can be had for a song; often the loot on offer is guns. A Chinese Kalashnikov fetches a mere $50, a box of 9mm bullets $2. The prices are a quarter of prewar levels, and a measure of the scale of disorder into which the country has fallen. “Americans! Americans!” shouts someone, and the wares slip back under robes and into car boots until the patrol of lumbering Humvees passes.

Which is about as much contact as most Iraqis have with their liberator-occupiers. Particularly outside the capital, coalition forces shy away from city centres. The deliberate discretion reduces chances of misunderstanding, a serious risk given American nervousness, the lack of a common language, and Iraqi unease at having armed infidels in their midst. The disadvantage is that Iraqis rarely witness the useful side of America's presence, such as engineering teams helping to restore power and water supplies, or

the distribution of fuel and drugs to hospitals.

With untold thousands killed and maimed in the war, Iraqis still regard the Americans with more wariness than gratitude. Rumours, fanned by Baathist malingerers and by the Arabic broadcasts beamed from Iran that are the only television available right now, attribute other evils to a superpower whose motives for coming here in the first place remain a mystery to most Iraqis.

America has introduced AIDS, ripples one wave of talk across Ferdous Square. Iraq is the Zionist springboard for destroying Islam, ripples another. The foreigners' failure to protect Baghdad's hospitals, rare books and priceless antiquities, while keeping the empty Ministry of Petroleum under tight guard, is widely read as a sign of malign intent.

The failure to express a clear vision or timetable for America's role add to suspicions. Years of war, oppression, wrenching poverty, isolation and, for many Iraqis, personal humiliation under Saddam Hussein's regime have left terrible wounds. It can be hard to grasp the meaning of sudden freedom: sheer anxiety is a common response. Moreover, sanctions and rapacious rule have reduced Iraqis to destitution. Generous prewar food rations have ensured that families have basic food, but many have no cash at all, even to pay for public transport to cross the city.

Unity and democracy, one day maybe

“Order and Saddam beats chaos and Amrikaan”, is one rhyming slogan being voiced in Baghdad. The sight of dozens of new parties springing up, spreading leaflets calling for unity and democracy, excites derision as much as curiosity. Patching together a new administration, in the absence of records, offices or communications, is proving to be painfully slow.

Most bureaucrats were obliged to join the Baath party, but weeding out abusers is fraught with difficulty. In the grubby, unlit conference rooms of the Palestine Hotel, shouts from the floor interrupt public meetings by the American-appointed Iraqi officials charged with kick-starting the municipality. “We must have an Islamic constitution!” “That man is a Baathist torturer!” “My mother is sick!” “You are just American stooges!”

Outside Baghdad, with its ransacked institutions, cracks of sudden gunfire and continuing power blackout, the process of revival is proceeding more smoothly. The holy city of Karbala, for example, escaped serious looting. It now has a functioning police force, a governor chosen by local leaders, and decent water and power supplies. This week it hosted several million Shia pilgrims without serious incident.

Many of the visitors had walked from the far corners of Iraq, a traditional expression of penitence for the 7th century martyrdom of the Prophet's grandson at the hands of a cruel Sunni caliph. Under Saddam the march had been forbidden. For many Shia, this year's event represented both a personal taste of freedom and a show of communal force. Even the newly constituted police force of Karbala chipped in. Its patrol cars broadcast religious chants from loudspeakers, while security around the shrine itself was left to local volunteers, many of them armed.

The coming power struggle

Until Saddam is found alive or dead, he will continue to spook Iraqis. Some speak of a terrible revenge planned for April 28th, the dictator's birthday. But the bigger fear is of a power struggle between emerging political forces. Some say this may be sparked by Baathist saboteurs, others by Iranian agents.

Another worry is that if secularist, American-backed oppositionists with little local backing are strong-armed into office, reactions may be fierce. A little-known group called the National Democratic Assembly has already taken control of government in Najaf, prompting widespread local resentment.

In public, all Iraqis insist on their desire for unity: “Sunni and Shia together, this land is not for sale!” was this week's favoured slogan, both for political rallies in Baghdad and religious processions in Karbala. Even so, many Sunnis, former Baathist apparatchiks and Christians remain wary of the Shia, not only because of their numerical strength but because of their clergy's mobilising power.

This may be exaggerated. Shia religious leaders themselves decry the divisive rivalry between differing schools. Their one point of unity is that America is not welcome to stay for long. “Sooner or later they will leave anyway,” says the son and spokesman of Ayatollah Sistani, the preeminent Shia scholar in Najaf, denying rumours that his father has decreed *jihad* against the invaders. “But in the meantime we don't want to give legitimacy to their presence for one moment.”

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Iraqi Kurdistan

A rather less than model state

Apr 24th 2003 | SULAYMANIYAH
From The Economist print edition

For a start, the two Kurdish chiefs have to learn to live with one another

AP

Kurdistan's home-coming general

Get article background

ONCE he reached the north, Jay Garner, the retired American general who has been chosen to administer post-Saddam Iraq, didn't have to try too hard. His audience of Kurdish students at Sulaymaniyah's university gave him a rock star's welcome, cheering and stamping their feet as the 65-year-old grabbed the microphone from the podium and walked to the front of the stage. “I believe in you. You are the future,” he told his admiring audience. “Let the spirit of free people in Iraqi Kurdistan spread to the rest of Iraq.”

As charm offensives go, it was the most successful so far in the American-British bid to win the hearts and minds of Iraqis. It was also in stark contrast to General Garner's more frosty arrival in Baghdad a day earlier. The general was returning to the Kurdish-controlled north for the first time since 1991, when he had been a key figure in the establishment of the safe haven. For that, and for the removal of Saddam Hussein, the Kurds are clearly grateful.

It felt, the general said, like coming home. Travelling with a roadshow of army officers, engineers, diplomats, technicians and legal experts, all laden with the job of rebuilding Iraq, he headed for a two-day tour of what he termed “the Kurdish provinces.” In addition to crooning to the region's students and visiting schools and hospitals, the silver-haired and apparently silver-tongued military man held talks with the region's two leaders, Massoud Barzani of the Kurdistan Democratic Party (KDP), and his rival, Jalal Talabani of the Patriotic Union of Kurdistan (PUK).

Afterwards he praised the two men, both for their support of the campaign to oust Saddam, and for the model of leadership and freedom he said they had nurtured during the Kurds' 12-year experiment in self-rule. Iraqi Kurdistan, he averred, was a model of democracy for the entire region to follow.

Well, yes and no. True, the Kurds of northern Iraq are healthier and wealthier than at any time in the past three decades. And the freedoms enjoyed by the population in the self-rule areas contrast favourably with the conditions of their countrymen under Baathist rule. But the social, political and economic realities of Iraqi Kurdistan are far from perfect.

The presence of Saddam in Baghdad served to hide a multitude of sins which will now have to be addressed if the Kurds are really to set an example worth following in the new Iraq. Many Kurds, for example, are still feeling the effects of the disastrous civil war between the KDP and the PUK in the 1990s, a war that rent their region in two. There are now two regional administrations, two prime ministers and, perhaps most worryingly, two rival party militias, whose arsenals have been boosted by hardware “liberated” from Iraqi troops as they fled the northern front.

Each administration is, in effect, a one-party statelet. Rival political parties are allowed to exist in both areas, but with no region-wide elections since 1992, they have scant opportunity to prove themselves. Transparency in financial dealings is lamentably absent and rumours abound of high-level corruption among the elite.

Barham Salih, the prime minister of the PUK's government, which controls the eastern part of the self-rule area from Sulaymaniyah, accepts that Baghdad's misdeeds were often used to justify the Kurdish parties' political shortcomings. Now Saddam has gone, the Kurds will demand more, he says. They will expect more efficient, more transparent government. They will demand greater margins of freedom. Above all they will demand accountability through the ballot box. Until then, the two parties must develop ways of cohabiting, avoiding the fratricide of the past.

Mr Salih, a self-confessed if moderate Kurdish nationalist, believes that a secure future for the Kurds lies only through guaranteeing their status in the constitutional arrangements that will emanate from Baghdad in the coming months. He rejects the fears of Turkey and Iran that Iraqi Kurds secretly want independence: all we want, he insists, is to be full partners in a democratic, federal and pluralist Iraq.

Baghdad is where the Kurds will have to concentrate their energies. But, first, they have to engage in a spot of house-cleaning. Unifying their administration and holding elections would set an example to match General Garner's words. So too would disarming the party militias, which could be a precursor to the full integration of the Kurdish forces in a new pan-Iraqi army. Mr Barzani and Mr Talabani have to learn to trust each other and, at the same time, put faith in a process that could well result in a diminution of their power.

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Iraqi exiles

Is there a place at home for us?

Apr 24th 2003 | AMMAN
From The Economist print edition

Writers and artists contemplate the new Iraq

Get article background

IN THEIR ghetto of crumbling tenement blocks in Amman, Baghdad's exiled literati gathered for their first *umsiya*, or cultural soirée, since liberation. As with so many of the 3m or so Iraqis who have fled Baathist rule, one question dominates: when, or if, to go home.

The call is pressing. In the wake of the pillage of Iraq's museums and archives, the émigrés who had once made Baghdad the Arab world's art capital feel a responsibility to carry their oral traditions home. The exiles wring their hands at the thought of American generals parcelling out power to reactionary religious and tribal leaders, completing the eradication of Iraq's civil society that the Baath began 30 years ago.

Amman holds little lure for them. Sunni Jordanians hold the mainly Shia Iraqi émigrés in disdain, and consider them traitors for rejoicing at the fall of Saddam Hussein, standard bearer of Sunni rule in Iraq. Most of the 300,000 Iraqis in Jordan live in penury, banned from employment by Jordanians who fear the better-read exiles might take their jobs. Diab, a potter, earns a pittance illegally packing olives into tins. To encourage their exodus, Jordan is waiving fines for Iraqi overstayers.

A few are testing the waters. The daily newspaper of exiled Iraqis, *Al Zaman*, is now openly circulating in Iraq and has opened an office in Baghdad. Exiled fathers separated from families still in Iraq pay for (forged) papers to return home without forfeiting their refugee status. But the brain-drain is not, as yet, being reversed.

“Iraq's organised chaos can quickly degenerate into civil war,” says Jamal, a Baghdad poet who took his family to Amman when the Baathists discovered a photocopy of his secretly circulating anthology. Added to the security risks is the practicality of where to live: he sold his home to finance his escape. Besides, he and his family have spent too long pleading for refugee resettlement in the West to forgo their place in the queue.

But the diaspora's greatest fear is that it is now estranged. Another Jamal, a painter, describes the flight of Iraq's middle class after the Gulf war: “They spread all over the world and abandoned their country to the illiterate.” In their soirées, they recreate a long-lost Baghdad where Sunni, Shia, Jew and Christian all thrived and argued as one.

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New Palestinian government

Midnight's children

Apr 24th 2003 | RAMALLAH
From The Economist print edition

At the 11th hour, having perhaps proved something, Arafat gave way

Get article background

AP

But now Abbas has to outface Sharon

SEVEN hours before a midnight deadline, on April 23rd, Yasser Arafat and his prime minister-designate, Mahmoud Abbas (also known as Abu Mazen) agreed a new Palestinian government. The next morning a Palestinian suicide bomber struck, killing one person, at a railway station in Kafr Saba in northern Israel, thus demonstrating the most lethal kind of opposition the new order will face. Mr Abbas has vowed to end the bombings and other facets of the "armed *intifada*".

Forming a government was hard enough. After a rancorous struggle, the two aged Palestinian leaders were eventually steered to shore by Omar Sulieman, Egypt's intelligence chief. He persuaded Mr Arafat to accept a compromise he had spent two weeks resisting. Mr Abbas will be interior minister as well as prime minister, and the former security chief in Gaza, Muhammad Dahlan, will become minister for security affairs, responsible for policing in the Palestinian areas.

Mr Arafat had wanted to keep the former incumbent, Hani al-Hasan, in the job. He sees Mr Dahlan, once a favoured son, as a Brutus, conspiring with Israel and America to unseat him from within. But his persistence not only angered the Americans (who have long written him off) but also strained his relations with the European Union and Russia, which issued stiff warnings to approve Mr Abbas and his preferred government without delay.

Why did Mr Arafat make such a fuss? "Relevance," says a long-time aide. "He knows that Israel and America believe that nothing can be done with him. He has just shown that nothing can move in the Palestinian leadership without him."

Mr Arafat did score some domestic points. He rallied his Fatah movement behind him, exploiting the discontent many felt over Mr Abbas's new government. It was widely seen as short on fresh talent and long on the prime minister's cronies, even including some people accused of corruption. But all shades of Fatah expressed relief when the battle was over.

The new government is supposed to trigger publication of the so-called road map, the latest diplomatic plan for ending the Israel-Palestinian conflict. Under its initial commitments, the Palestinian Authority must act to curb violence. In parallel, Israel is under instructions to withdraw from Palestinian cities, and freeze its settlement construction.

Unimpressed by the power play in Ramallah, Palestinians are waiting to see if any of this actually happens. So too are Mr Abbas and Mr Dahlan. Whatever the seriousness of their commitment to act against Hamas and the other radical militias, few Palestinians believe that they will be able to do so unless Israel relaxes, and ultimately ends, the occupation.

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Elections in Nigeria

The people disagree

Apr 24th 2003 | LAGOS
From The Economist print edition

Reuters

The poll was dirty, but the more popular man won

Get article background

AN ORDERLY crowd of Nigerians stood by the polling booth, waiting their turn to vote. All was well, it seemed. But when asked how things were going, everyone clustered round and began to shout. A ballot box had disappeared, they said, and someone was planning to stuff it. Opposition supporters blamed the ruling party, and vice versa. An agitated youth grasped your correspondent's arm and yelled: “Look at the roads, the potholes, the rubbish! We don't have fuel, water or primary schools! And they call this democracy?”

This scene took place in Lagos, Nigeria's biggest city, on April 19th, the day Nigerians voted for a president and 36 state governors. The elections were dirty, and sporadically violent. Big bundles of cash were handed out during party primaries, and smaller ones were handed out in the streets during the campaign. In parts of the south-east, most voters were too frightened to vote, because of battles between rival militias, but the ruling party nonetheless won huge majorities in supposed turn-outs of over 90%.

All the major parties rigged, but the poll was so haphazardly organised that it was often hard to know who was behind any given act of skulduggery. Results emerged slowly, and sometimes inaccurately, as when thugs with guns entered a radio station in Delta state and forced the announcer to declare that the losing candidate for governor had in fact won.

On April 22nd, the head of the electoral commission, flanked by police with assault rifles, announced that the incumbent president, Olusegun Obasanjo, had won again. His main rival, Muhammadu Buhari, disagreed. His party said that the election had been fraudulent “on a scale that has never been witnessed in the history of criminality in Nigeria,” and it threatened both legal action and “mass action” to overturn the result.

Such threats should not be ignored. Mr Buhari has led a military coup before, in 1983. His excuse then was that a civilian-organised election had been rigged. He claims now to believe in democracy, but he is unrepentant about all the dissidents he jailed while he was a dictator. His supporters can certainly cause trouble, and probably will. But observers doubt that they could overthrow the government.

Mr Obasanjo has purged the army of officers he suspects of disloyalty. Mr Buhari is popular among northern Muslims, because he is one, and also because of his reputation for not being a crook. But his perceived authoritarian instincts scare most other Nigerians. During the campaign, the ruling party sought to inflame such fears with the slogan: “Remember, Hitler was democratically elected.”

Had the poll been free and fair, Mr Obasanjo would probably have won anyway, although not by the two-to-one margin he claims. The rigging was widespread, but not systematic. Much of it seems to have been organised at state, rather than national, level. A governorship is an easy path to wealth, for which several candidates were prepared to cheat. But despite this, 11 out of 36 incumbents lost, usually because voters thought they were no good. “Our governor has neglected us,” said E.A. Ajibose, a village chief in Ogun state, north of Lagos, “So we voted for a change.” The governor of Ogun, who belonged to a Yoruba nationalist party, lost to the ruling-party candidate.

Another term for Obasanjo

If and when the country calms down, Mr Obasanjo will once more be faced with the task of governing one of the world's largest and most dysfunctional states. His record so far is somewhat disappointing. A former general, he was elected in 1999 after the death of Sani Abacha, arguably the most brutal and corrupt of all Nigerian despots. Simply by not murdering his enemies or locking up critics, Mr Obasanjo has been an improvement on the past. Gains in other areas have been modest, however. The country is still poor, dangerous and disorganised. Given the unreliability of Nigerian statistics, it is not clear whether incomes have risen or fallen under Mr Obasanjo, but if they have risen, they have not done so by much.

The government's greatest economic success has been to allow private firms to provide mobile telephone services. Two years ago, when it started awarding such licences, Nigeria had fewer than 500,000 telephone links, almost all land-lines, only some of which worked. That number has more than trebled, as middle-class Nigerians have bought mobiles for themselves, their children, and their drivers. The new ease with which people can communicate has made small businesses more productive. “It lets us call suppliers, instead of visiting them in person,” says Michael Ojo, a pig-slaughterer. “Our customers phone in advance, so we can kill the pigs before they come. It's faster.”

The rest of the economy is struggling, however, because Mr Obasanjo has consistently lacked the courage to hack off the tentacles of state control that throttle it. One highly visible example of this is that Nigeria, which is Africa's largest oil-producer, still suffers periodic fuel shortages. These are not as common as they were under military rule, but still make life needlessly hasslesome.

Attendants at a petrol station in Kano, a northern state, say they have no petrol. Ten yards away, black-market hawkers stand waiting with brimming jerrycans. For three and a half times the official price of 26 naira ($0.20) a litre, they happily siphon the precious liquid, mixed with a little dust and kerosene, into motorists' tanks.

Officials' current excuses for the fuel shortage are the war in Iraq and instability in Venezuela. But the real reason is that the Nigerian government fixes the price of fuel. When the global oil price rises, it is reluctant to pass the increase on to consumers. Nigerian motorists feel that, because Nigeria is oil-rich, they are entitled to cheap fuel. The government has plenty of crude oil, but its fuel-refining firm, NNPC, is too dilapidated to turn it into enough petrol to meet demand. So it imports petrol at market rates, which it is then obliged to sell at a loss. It can do so only with huge subsidies, which the state provides fitfully.

Hence the shortages, which are further aggravated by the smuggling of subsidised fuel into neighbouring countries. Petrol stations that actually receive fuel can either sell it to motorists at the official price, or to black marketeers for three times as much. For some reason, many choose the latter option.

Mr Obasanjo understands all this. Last week, he promised to raise the price of petrol, which was a brave thing to say before an election. But he did not promise to end the state's price-fixing, so the problem will surely recur.

Nigeria has plenty of entrepreneurial spirit. Its markets throb, its traders haggle passionately, and ten-year-old boys stand by flooded craters in the roads, hiring out gumboots to pedestrians. But honest businesses find it hard to grow big, partly because the country's infrastructure is so bad. Since the early 1970s, nearly half of Nigeria's oil revenues have been pumped into building state-owned industrial giants, with woeful results.

The firm that is supposed to keep petrol pumps full, NNPC, doesn't. Mr Obasanjo has given NEPA, the state electricity firm, a $1 billion injection and a new board of directors, but blackouts are still common and anyone who can afford a generator has one. As for Nitel, the state telephone outfit, the less said the better, which might well be the company's motto.

According to the Bureau of Public Enterprises, “there is virtually no public enterprise in Nigeria today that functions well.” They swallow public funds that could have been spent on health or education, and suck up credit that could have nurtured productive businesses. Mr Obasanjo has privatised some of the small ones, but vested interests have prevented him from selling the big ones. Public firms' heavily-unionised workers, who make up nearly half of those with formal jobs in Nigeria, are understandably terrified of being laid off. Ministers and managers, loth to lose their powers of patronage, are also strongly against privatisation.

To cap it all, the firms' finances are so sick and murky that they are hard to sell. Doyin Salami, an economist at the Lagos Business School, reckons that the only way to sell a typical parastatal would be to offer buyers not the company itself, but the name and a clear list of assets. Any hidden debts or plundered pension funds would thus remain the government's problem, rather than than the buyer's.

Wanted: a leader with stomach

Nigeria needs a bold leader prepared to push through unpopular reforms. Mr Obasanjo is free to champion such reforms without fear of damaging his chances of re-election, because the constitution says he cannot run again in 2007. But does he have the stomach? His government's record of passing silly, populist measures, such as a ban on imported fruit juice, does not augur well.

It has also banned foreign spaghetti, frozen meat, certain textiles, poultry and second-hand tyres. Atedo Peterside, an investment banker, calls this “a worrying trend”. To the extent that the bans are enforced, they hurt consumers. And, says Mr Peterside, “if someone comes to me with a project that is only viable because of an import ban, I'm reluctant to finance him. What if the ban is lifted?”

Mr Obasanjo has promised to tackle corruption, but so far there have been no high-profile convictions. He can take credit for not sending minions to steal money directly from the central bank, as Abacha did, and for the fact that public finances are not as messy as they were under military rule. But the government is still not as clean as it might be, and public finances are still in disarray.

Last year's budget assumed that the state would earn $1.3 billion from the privatisation of Nitel and another $1.2 billion by recovering loot from Abacha's family and friends. (To put this into context, those two figures combined were 16 times the amount budgeted for health care.) Unfortunately, the sale of Nitel fell through, and the Abacha loot was not returned. The consequence was a fiscal crisis so grave that parliament tried (unsuccessfully) to impeach the president.

In his victory speech, Mr Obasanjo said that Nigeria had “come of age” as a democracy. He added that the people had “voted for one united, harmonious Nigeria”. Doubtless, most Nigerians would indeed like their country to be harmonious, but it isn't. Armed robbery is rife, and over 10,000 people have died in communal violence since 1999, as Christians have fought Muslims in the north, Yorubas and Hausas have burned each other's shops in Lagos, and the Niger delta's tribes have fought for control of local government.

In the last couple of years, modest progress has been made in imposing harmony. In Lagos, crime has been curbed a bit by a police campaign called “Fire for Fire”, during the course of which many suspected robbers have been “arrested with gunshot wounds” and subsequently died. In the Niger delta, the army has been used to quell ethnic unrest, which it has done with considerable force.

In the oil town of Warri, where fighting between the Ijaws and the Itsekiris has claimed scores of lives in recent months, soldiers man roadblocks amid the ruins of burned-out houses. The newly re-elected governor's face beams down at them from campaign posters, which declare that “[James] Ibori's healing hands have brought peace to Delta state.” If only Nigeria lived up to its boasts.

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Nigeria

Apology to Chinonye Obiagwu

Apr 24th 2003
From The Economist print edition

IN OUR article “Nigerian Scams: Sharia Shenanigans” (December 14th 2002) we reported that Chinonye Obiagwu went on a fund-raising drive through Sweden falsely claiming to be the lawyer for Amina Lawal, a Nigerian woman sentenced to death for adultery, and had received money from people in Sweden on the basis of this false claim. The article also suggested that Mr Obiagwu's behaviour was comparable to fraudulent Nigerian “scamsters” and the “biggest crook of all”, Nigeria's former dictator, Sani Abacha. This was quite wrong. Mr Obiagwu has never claimed to be Ms Lawal's sole legal representative and has never sought or received any money from anyone in Sweden or anywhere else in respect of Ms Lawal's case.

Mr Obiagwu is a respected human-rights lawyer working both in Nigeria and internationally and is National Co-ordinator of the Legal Defence and Assistance Project in Lagos. As part of his activities in promoting the cause of human rights in Nigeria, Mr Obiagwu is a member of a group of lawyers who provide legal insight and other support to Ms Lawal's case. Mr Obiagwu was in Sweden at the invitation of a Swedish non-governmental organisation to give seminars on impunity and Sharia law.

The Economist apologises to Mr Obiagwu and deeply regrets any embarrassment or distress caused to him by the article. *The Economist* also regrets the delay in publishing this apology.

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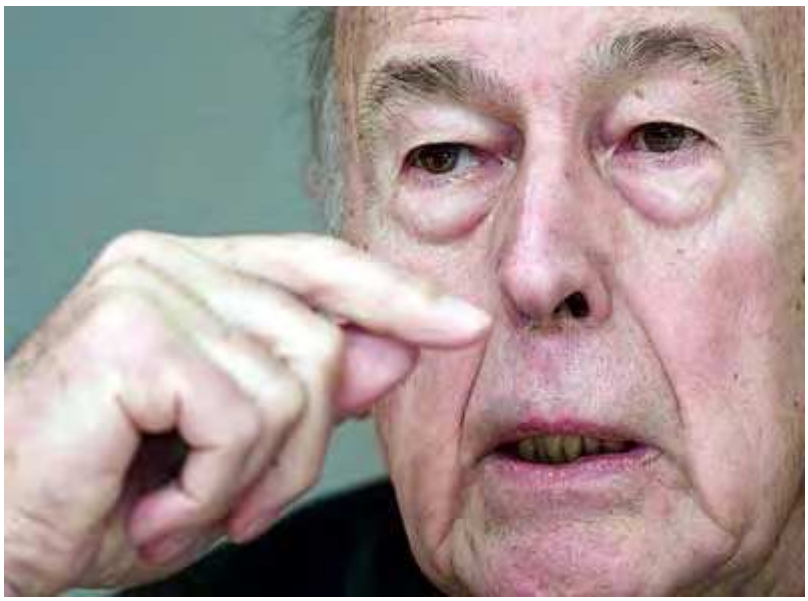
Reforming the European Union

Institutional mayhem

Apr 24th 2003 | BRUSSELS
From The Economist print edition

Reuters



The president of the EU's constitutional convention has produced his proposals. And a noisy row he has set off

Get article background

WITH just 60 days to go before the Convention on the Future of Europe is meant to finish its draft constitution for the European Union, consensus should be emerging. Instead a bitter row has broken out between Valéry Giscard d'Estaing, the former French president who chairs the convention, and the European Commission, backed by various unhappy national governments and Euro-parliamentarians.

On April 22nd, Mr Giscard d'Estaing unveiled his ideas for the reform of the future, enlarged EU's institutions. He wants to give the Council of Ministers, where EU countries' national governments are represented, its own powerful president, who would preside over a mini-cabinet charged with guiding the EU's work. This is (accurately) seen by the commission—which holds itself aloof from national governments, and is traditionally the most powerful institution in Brussels—as a direct challenge to its authority. Within a few hours of Mr Giscard d'Estaing's announcement of his proposals, the commission had rushed out a statement denouncing them as liable to create “confusion and duplication of bureaucracies” and “unequal treatment of member states”.

The European Parliament, the third element of the EU's institutional triangle, also is unamused. Elmar Brok, a conservative German Euro-MP who chairs the largest parliamentary group, denounced Mr Giscard d'Estaing as “autistic” and claimed his proposals were “purely about reducing the powers of smaller EU countries, the commission and the European Parliament.”

To outsiders, unversed in the ecclesiology of the EU, these arguments might look like obscure disputes about bureaucratic process. In fact the issues raised are very practical indeed: essentially, they are about who wields power within the Union. They pit defenders of the nation-state against advocates of a more powerful pan-EU government; and they set the EU's smaller countries against the larger ones.

Mr Giscard d'Estaing says that his proposals are simply meant to improve the council's work, without

weakening other institutions. At present, the council is run by a rotating presidency, with each EU country, however tiny, getting six months in the chair. Mr Giscard d'Estaing's proposals would create more continuity by setting up a president who could serve for up to five years and flanking him with a foreign minister. Critics of the proposals fear the new president of the council and his cabinet would inevitably encroach on the turf of the commission.

Other elements of Mr Giscard d'Estaing's proposals sharpen these suspicions. He suggests that the number of commission members be reduced to 15 from today's 20; and that its president would then appoint 15 non-voting “advisory” commissioners—a transparent and rather insulting sop to smaller countries that fear losing “their” commissioner.

Small countries are also alarmed by the suggestion that the number of Euro-MPs from each country should be made directly proportional to its population, a proposal that would drastically reduce their representation. And the parliament as a whole is directly threatened by another Giscard idea; the creation of a whole new institution, a European congress, two-thirds of whose members would come from national parliaments, and which would decide any further constitutional changes and debate the policy proposals of the new president of the council.

Wait for the sting

While these ideas have already stirred up a hornet's nest of protest in Brussels and in smaller EU countries, they will be welcomed in London, Paris and Madrid. The French and British, who have spent recent months arguing over the EU's foreign policy, can unite around the proposals, which do indeed seem to favour bigger countries. The position of Germany, however, the largest EU country but also traditionally one of the strongest backers of the European Parliament and the commission, is both ambiguous and pivotal.

But before the governments of *EU* countries and all the other interested parties get seriously to debate Mr Giscard d'Estaing's proposals, he will first have to get them through the convention. Opposition within its 12-person presidium has already made him modify his proposals slightly. They are likely to be further mauled in the full convention.

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The Italian left

Disunited they fall

Apr 24th 2003 | MILAN
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Wrangling with itself, Italy's divided left is the right's best ally

AP

No unity behind Fassino

MOST Italians opposed the war in Iraq. So did the left. The centre-right government was, by and large, for it. So has the left gained ground? No, say opinion pollsters, it has lost some and the government has gained. Why so? Because Italians love winners? Not necessarily. More because the left could not capitalise on its anti-war stance, since it was expressed in at least ten different varieties, from the mouths and keyboards of as many different groups.

And the left may have to pay, in polls that weigh votes, not just opinions. The electorate has had enough of the continuous bickering among leaders who seem more interested in being called *Signor Presidente* within their own tiny party than in winning an election. The next general election is three years away, but a bunch of local ones is coming up soon enough.

The war in Iraq was, in fact, a public-relations disaster for the left. Nearest to the centre, the group known as the Daisy was mildly divided: a handful of dissidents protested when the leadership hinted it could support armed intervention, given United Nationsbacking. Further left, however, Piero Fassino's Democrats of the Left—successors, roughly, to the old Communist Party, which abandoned that adjective in 1990—were deeply split. Most members seemed to place their faith in France, Germany and the UN; a solid leftist minority, fearful of losing touch with outright opponents of the war, disagreed. When parliament last week voted to send peace-keeping troops to Iraq, most Democrats of the Left abstained, but the minority voted against. And Sergio Cofferati, the former leader of Italy's biggest trade-union body and now the most charismatic figure on the left, supported the minority.

The hard left—two varieties of Communist and still proud to call themselves so—was in tune with the pacifist mood of the anti-war street demonstrators: no assistance whatever, be it bases or even airspace, for the war. The Greens agreed.

For a current of political opinion that was in national power only two years ago, this is a pretty wretched showing. And many other issues divide the left. One is Cuba. When Fidel Castro recently chose to suffocate dissent, a nasty row followed. The Cuban leader has many friends in Italy, and many are not ready to condemn him when he acts in a way that manifestly deserves it. Here even the two varieties of proclaimed Communists differ: the Italian Communists (who are part of the moderate Olive Tree Coalition) find excuses for him, the Refounded Communists (who are not) condemn him. They each have their reasons; whether anyone else cares what these are is another matter. All groups of the left have their own daily newspapers, where they endlessly debate topics like this, of deep interest to their activists and precious little to the average voter.

Another cause of friction has been pensions reform. Italy's pensions eat up almost 16% of the nation's GNP. Manifestly the system needs to be revised. But only the moderate left thinks so.

There is yet another divisive row about the forthcoming referendum on Article 18 of Italy's much revered and deeply outdated Workers' Charter, which prevents large employers from firing workers without “fair cause”. The moderates would like to ignore the referendum altogether, calling it “ideological and anachronistic”. The hard-liners, happy to have a barricade to rush to, look forward to it.

This infighting has exasperated left-leaning voters: opinion polls say that more and more have simply had enough. Many hope that Romano Prodi, now at the European Commission in Brussels, will come home and lead the left to an election victory, as he did in 1996. It could be, though it is hard to imagine the many groups now at each other's throats united behind him. For the time being, though, the divided left has elected a winner already: its arch-enemy Silvio Berlusconi. With the economy slowing, most big reforms stalled, his conflicts of interest unresolved and his best friend in legal trouble, in most countries he would be vulnerable. Not in today's Italy, where a right-wing prime minister's best ally is the divided opposition.

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French pensions reform

It has to happen—but will it?

Apr 24th 2003 | PARIS
From The Economist print edition

The pensions system is unsustainable; the trade unions want to sustain it

Get article background

NEXT month will be a hot one in France, in labour terms, at least. Hot enough to derail plans to reform a pension system whose eventual doom is otherwise a demographic certainty? The trade unions hope so: on May Day they will take to the streets to denounce anything that smacks of greater pensions contributions for lower rewards later; and again two weeks thereafter; and again no doubt near the end of the month, when the government is due to agree not just on the broad lines of reform but the details.

So forgive France's conservative prime minister, Jean-Pierre Raffarin, if he feels a touch nervous. After all, it was street demonstrations, in December 1995, that led to the electoral humiliation in 1997 of the last reformist centre-right government, that of Alain Juppé. And, as one union negotiator mischievously points out, it was May 1968, the quasi-revolution, when students and (some) workers took to the streets of Paris to do battle with the establishment, that started the end of de Gaulle.

Yet Mr Raffarin is not a man to panic, and in their hearts most French voters, unionised or not, know well that the present “pay as you go” system, in which today's workers are taxed to provide the pensions of today's retired people, is unsustainable, except by making taxation ever more punitive. Today there are only four pensioners for every ten workers; by 2040 there will be seven.

They know too that the system is extraordinarily complex. There are, for example, 26 different basic schemes, depending on your trade or profession. And they know that the system is deeply unequal. Workers in the private sector have to slave for 40 years before qualifying for a full pension; in the public sector, only 37.5 years. Nay, plenty of public-sector workers such as primary-school teachers, nurses, policemen or train drivers can retire on full pension at the age of 55, or in some cases even 50. Put all that together and it is not surprising that, according to one recent opinion poll, 77% of French adults believe that public-sector working lives, and therefore pension contributions, should be extended to match those of the private sector.

Unhappily for Mr Raffarin, that does not mean victory is pre-ordained. For a start, the public sector (which, unlike the private one, is heavily unionised) employs just over a quarter of the workforce—enough workers to hold the country to ransom. Second, while the salvation of the pension system implies that everyone will have to work longer and retire later, the poll cited above also shows that 59% of French adults (and 67% of those in the public sector) would prefer to work less, even if it means a lower pension.

But the worst problem for Mr Raffarin is that reform will in practice be painful for everyone, including those who approve of it in theory.

The public-sector workers will obviously resent the notion that by 2008 they will have to pay 40 years of contributions, even though their bonuses will now be included in calculating their pensions. They will also object to the elimination of several statutory indices that guarantee them pension increases above the inflation rate.

For their part, private-sector workers will resent the government's refusal to undo a 1993 reform by which the level of their pensions from 2008 will be based on the individual's pay in his or her best 25 years at work, rather than the best 20 years, as at present. Since that reform also indexes pensions to inflation rather than wages, the result, say the unions is to erode pensioners' purchasing power and so their standard of living. Meanwhile, workers who have their careers interrupted by long spells of

unemployment—which is common enough in France's rigid jobs market—will be doubly penalised by not being able to keep up their contributions.

Can the government, in the shape of the clever social-affairs minister, François Fillon, and the civil-service minister, Jean-Paul Delevoye, smooth away the objections? One idea they have been trying to sell is a pension “bonus” of 2-3% a year for every year worked beyond a total of 40; and a corresponding penalty for those who retire early. Another idea is to use tax incentives to “increase access to pension-savings tools”—code for the pension funds beloved of the Americans and British.

Yet whatever the ideas, they will be hard to sell. Pension funds, for example, look bad when markets fall (British pension funds were worth 100% of Britain's GDP at the end of 1999 but only 66% at the end of last year). Moreover, the ideas may not work anyway. France's bosses, heedless of their tendency to cut labour costs by laying off their older workers, say full pensions should come only after 42 years of contributions.

In a way, the government has admitted its difficulties. Rather than presenting its ideas as a once-and-for-all reform, it says that they will need revising as conditions change over the years: there will, in the words of one of Mr Fillon's aides, be “a permanent process of reform” instead of the risk of “revolution every five years”. Maybe—unless permanent reform turns into permanent revolt.

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Russia's murky politics

A good man murdered

Apr 24th 2003 | MOSCOW
From The Economist print edition

For once, the victim of a political killing was an honest man and a democrat

POLITICAL killings in Russia are rarely political. Ten members of the Duma, the lower house of parliament, have been murdered in the past ten years, plus a host of sundry other officials. Though the cases are rarely solved, most carry a strong whiff of corruption or business disputes. But Sergei Yushenkov, a Duma member shot dead on April 17th outside his home, was—so everyone says—clean.

Compare his murder with that of another Duma member, Vladimir Golovlyov, co-chairman with him of the small Liberal Russia party. Colleagues at first denounced that killing last August, a few months after the party was founded, as an attempt to intimidate the opposition. But a consensus quickly grew that Mr Golovlyov might well have died for murkier reasons: as the head of a privatisation scheme in the early 1990s, he was alleged to have embezzled large sums of money from people whose power later grew as his did not.

After Mr Yushenkov's death, in contrast, politicians of all stripes lined up to attest to his honesty and lack of interest in business, and to hint at political motives. He had a history as a dissident: first as a Soviet army colonel who publicly argued for military reform, then as a legislator who criticised authoritarian tendencies in post-Soviet governments.

He had lobbied against the military campaigns in Chechnya. After a series of apartment-block bombings in 1999 that killed 300 people, Mr Yushenkov and a handful of other deputies began investigating allegations that they were not, as claimed, the work of Chechen terrorists, but of the authorities themselves, eager to stoke popular support for the second campaign in Chechnya, which began shortly afterwards. Mr Yushenkov kept plugging away at the theory, and last year he helped Boris Berezovsky, an exiled business magnate and Liberal Russia's main financial backer, to distribute a film about it.

That connection means that even if business or personal reasons were not behind Mr Yushenkov's death, there is no shortage of conceivable political ones. Supporters of the bombing conspiracy theory think he was getting too close to the truth. Others point to his public falling-out with Mr Berezovsky, whom he expelled from Liberal Russia after the tycoon voiced support for the Communists. Mr Berezovsky, himself an arch-enemy of the Kremlin, claimed that the rift between the two men was exaggerated, to allow Liberal Russia to win official approval as a party, which it had trouble getting because of its links with himself. Some devious minds think Mr Yushenkov was killed specifically to cast suspicion on Mr Berezovsky.

There are more pedestrian theories. On April 23rd police arrested a young man fitting the killer's description, whose father had been jailed a few years previously for making threats against Mr Yushenkov. Revenge, they said, could be the motive.

Few people, however, doubt that the murder was indeed a contract killing: mainly because, as in many such cases, the killer left the gun behind. While contract hits are not as frequent as in the wild days of the early 1990s, a steady trickle of fairly high-ranking officials, along with many smaller fry who do not make the news, are still shot to order every year. And the gunmen are hardly ever caught, probably because whoever ordered the hit has the power to thwart the investigation.

The only other victim to match both Mr Yushenkov's level of respect and his reputation for cleanliness was Galina Starovoitova, an MP who championed human rights and was shot dead in 1998; only last year were six men arrested for the murder, and whoever ordered it is still free. The chances of Mr Yushenkov's killers being caught, let alone the man or men behind the murder, are probably no greater.

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The Netherlands' non-government

Three months of waiting

Apr 24th 2003
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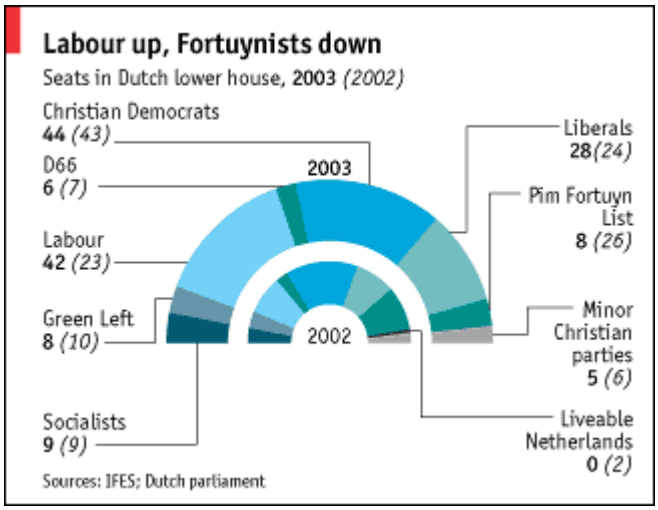
The Dutch voted for a change of government, but still have no government at all

THE general election was more than three months ago. Yet Dutch voters are still waiting for a fresh government. In a country that always needs a coalition, and whose parties traditionally haggle endlessly over every detail of policy before forming one, that is not beyond precedent. What is less usual, and to some non-partisan people disturbing, is that the big swing of opinion shown in the election looks unlikely to be reflected in the government that does eventually emerge.



Last year was, by Dutch standards, one of political sensations. First, in Rotterdam's municipal election, the ever-ruling Labour Party was shoved into second place by a local list led by a strident, intelligent populist called Pim Fortuyn. Next, his brand-new national party seemed headed for similar success in May's general election. Then, just before the vote, Fortuyn was murdered—and his party did even better than expected, coming second only to the opposition Christian Democrats (CDA). After eight years of dominating Dutch government, Labour was smashed.

Not for long. The new government, headed by the CDA and its leader, Jan Peter Balkenende, and including the long-established Liberals and the Fortuynists, was a shambles. Last autumn it fell apart. A fresh election was the only way out, and Labour, under a new chief, was suddenly back in the race. On voting day, January 22nd, the Fortuynist vote collapsed and Labour all but overtook the CDA.

All but, but not quite. Mr Balkenende was still entitled to first crack at forming a government. The obvious answer—for all his manifest dislike of his social democratic rivals—was a CDA coalition with Labour, no oddity in this land of compromise, and one that promised a solid majority, 86 seats out of 150. On and on the haggling dragged. At last, by some two weeks ago, an accord seemed to be in sight.

Then, hey presto, it vanished, amid deep Labour suspicions that Mr Balkenende had simply dreamed up fresh obstacles. The whole process had to start again. The queen appointed a CDA man and a Liberal as new joint *informateurs*—the first step in the elaborate Dutch post-electoral ritual—to seek out fresh possibilities.

So far, in vain. The two parties between them hold 72 seats. A third one is at least desirable. But which? For a time, what Mr Balkenende after voting day had called “incredible” looked, if only just, credible after all: a CDA-Liberal-Fortuynist rehash. But only a dedicated masochist would get into bed with the

shambolic Fortuynists, and they shut the bedroom door anyway, hoity-toitily declaring that they could not shack up with anyone who thought it incredible to shack up with them.

What about D66, a glamorous, mould-breaking party when it was formed 37 years ago, and still one of ideas, but now long in the tooth and short, with just six seats, in voter appeal? Or maybe two fundamentalist Christian parties, one so fundamental that it never puts up female candidates? Meanwhile, Labour waits in the cold, grumbling that opinion polls now give it first place. More worrying, those polls also show Dutch voters' trust in politicians, never very high in recent years (hence, in part, the amateur Fortuynists' success last year), steadily falling.

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Statesmen on screen

Fogh pas

Apr 24th 2003 | COPENHAGEN
From The Economist print edition

Fly-on-the-wall television is no aid to diplomacy, the Danes have shown

IT SOUNDED a great idea: give the voters an insight into the secretive world of European decision-making by letting a cameraman shadow Denmark's prime minister during the six months of his country's European Union presidency.

The resultant fly-on-the-wall documentary, filmed while EU leaders tried to cobble together a membership deal for ten new countries, was intended to heighten public awareness of, and enthusiasm for, the grand European project. And indeed the programme, shown on Danish television on April 22nd, was riveting. But the reaction it provoked was not at all what the prime minister, Anders Fogh Rasmussen, had planned. And it has triggered embarrassment and incredulity in several European capitals.

Besides seeing their hard-working leader greet dignitaries and scurry from meeting to meeting, Danish viewers heard a host of off-the-cuff remarks of the sort that usually stay off-camera too.

One scene showed Per Stig Moller, Denmark's foreign minister, telling the prime minister about his conversations with Joschka Fischer, Germany's foreign minister, regarding Turkey's bid to join the EU. Mr Moller said Mr Fischer had adopted three different positions on the issue in the space of 12 hours. “We discussed it briefly, and he initially said, ‘We must find an alternative type of membership, they can never be full members',” Mr Moller told his boss. But later, he said, Mr Fischer back-tracked, saying, “Forget it, I was only philosophising.” This tale sparked outrage in Turkey, bumping Iraq from the front-page headlines, even before the documentary was shown. The Germans had to issue a hasty denial.

In another clip, Michael Kristiansen, Mr Fogh Rasmussen's spin doctor, told how Gerhard Schröder, Germany's chancellor, was willing to put up more cash to ensure Poland joined the EU, but would say so only at the key EU summit. Sound diplomacy—but not on air.

Other indiscretions too were exposed. Journalists “are bandits, all of them,” said Russia's Vladimir Putin. Romano Prodi, head of the European Commission, was shown muscling his way to a press conference podium, over the objections of Mr Fogh Rasmussen, who did not want to share the limelight.

Officially, Europe's governments deny any consequent rift with the Danes. Privately, some diplomats suggest doubts about trusting them to keep their mouths shut in future. And the fact that Mr Fogh Rasmussen had had, and used, a right to censor certain passages before broadcast heightens their discomfort. Yet he is unrepentant. “We must become accustomed to greater openness about what goes on in politics,” he said, adding that he would not rule out further initiatives to cast more light on the inner workings of policy-making.

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Charlemagne

Divide and rule?

Apr 24th 2003
From The Economist print edition

The United States has unfamiliar doubts about the merit of European integration

A SENIOR official from the Bush administration was recently asked by some visitors from the European Union to define American policy towards Europe. The word he came up with was “disaggregation”. To the Europeans it came as a shock: their interpretation of his jargon was that the Bush administration is increasingly tempted to junk the United States' long-standing support for European integration and to move instead towards a policy of “divide and rule”.

If that is so, it would mark an historic shift. Ever since the second world war, the United States has promoted the idea of an “ever closer union” in Europe, often with considerable energy. In 1948 an American Committee for a United Europe was formed, boasting such luminaries as Allen Dulles, an early head of the Central Intelligence Agency, on its board. Throughout the 1950s this committee funnelled money towards individuals and organisations in Europe that were bringing the fledgling European Economic Community, forerunner of today's EU, into being.

Like many of the EU's own founding fathers, Americans in the 1950s thought that European integration might prevent the continent lapsing back into war. As the cold war developed, it also looked a good way of strengthening western Europe against the Soviet block. Even when that struggle was won, American support for European integration continued. The Clinton administration supported the creation of the euro, despite suggestions from some Europeans that their single currency might rival the dollar. President Bush said in Berlin last year that “when Europe grows in unity, Europe and America grow in security.”

Has Mr Bush now changed his mind? Many European politicians think so: indeed, the idea that the United States is now actively undermining European unity crops up regularly in the reflections of Europe's great and good. Talking at Harvard recently, Javier Solana, the EU's foreign-policy chief, warned the Americans not to try to “cherry-pick” among their European allies, arguing that this would only encourage those in Europe who want the EU to define itself in opposition to the United States. Carl Bildt, a former prime minister of Sweden, writing in the *Financial Times* this week, scolded “some in Washington” who “now gloat over the divergences we see in Europe”.

It is tempting, particularly for Europeans, to argue that American “gloating” about new and old Europe simply reflects changes in the United States: a new militancy after 9/11 and a Bush administration influenced by the tenets of neo-conservatism. In fact, there have been changes on both sides of the

Atlantic which feed on each other, increasing mutual suspicion.

In Brussels the process of European integration has begun to touch on areas that are inevitably more sensitive for the United States than mere economics: in particular, defence and the idea of setting up a European military force. These ideas were first floated in the late 1990s, but American alarm was limited because the British, notably, made it clear that the aim was to build up Europe's ability to “burden-share” with the United States.

But some European leaders are now saying, with increasing explicitness, that their goal is to build the EU up to the point where it can challenge the United States. Romano Prodi, the head of the European Commission, has for example said that one of the EU's chief goals is to create “a superpower on the European continent that stands equal to the United States”. Jacques Chirac, the president of France, has said that “we need a means to struggle against American hegemony”. Given that the Bush administration's security doctrine is explicitly aimed at preserving that hegemony, it is hardly surprising that the United States is now a little warier of the process of European integration.

And the consequences will be?

One practical effect of such wariness may be that the United States becomes less inclined to suggest that it would be a good thing if the EU were to get its act together, and speak with one voice. Henry Kissinger's famous complaint about not having one single number to ring in Europe is likely to be made less frequently. After all, on a range of issues, from global warming to the International Criminal Court, a single European voice would be liable to say things that Washington does not want to hear.

Instead, the United States will seek to build up “coalitions of the willing”, cultivating relations with individual European capitals and by-passing Brussels. The way in which America rallied support for its policy on Iraq from Britain, Spain and across eastern Europe is one obvious example. This process, call it disaggregation or cherry-picking, is continuing after the Iraq war.

At last week's European Union summit in Athens, the predictably painful process of trying to fashion a common European approach to Iraq was subtly undermined by almost simultaneous announcements from Denmark and Italy that they had decided to contribute troops to the reconstruction of Iraq. Following earlier likeminded promises by Spain and a bevy of central Europeans, these announcements seemed to come as an unpleasant surprise to some of their European partners. Nor is Iraq a lone example of the way in which the United States can divide the Europeans. It also tried, albeit with limited success, to undermine EU opposition to exempting Americans from the proceedings of the International Criminal Court—and sought bilateral undertakings to that effect from would-be EU countries.

Few people who know anything about America subscribe to the idea that all this is part of a deep, dark Bush administration plot to stop the EU in its tracks. The process of “building Europe”, which preoccupies so many in Brussels, does not crop up on many radar screens in Washington. But as the United States seeks to build up support for controversial policies, it is keen to find friends and allies where it can. In the process—deliberately or otherwise—it is cruelly exposing Europe's pretensions to a unified European approach to the world.

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Murder

Keeping up the old traditions

Apr 24th 2003
From The Economist print edition

Photodisc Blue

Gangland shoot-outs get plenty of publicity, but they're not why Britain's murder rate is rising so fast

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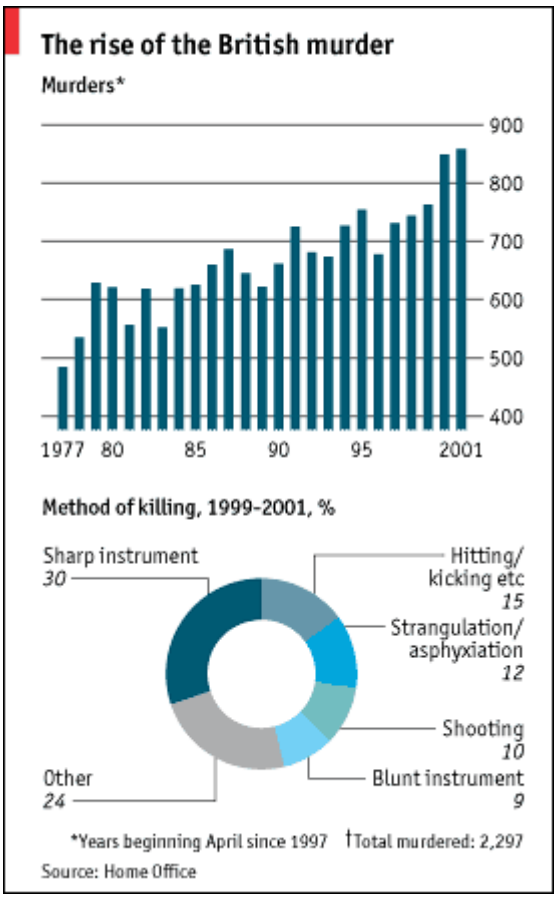
THE past year's most important murder was not that of Jane Longhurst, whose partially burned body was discovered last Saturday in West Sussex. Nor was it the murder of two Cambridgeshire schoolgirls, Jessica Chapman and Holly Wells. Horrific though these crimes were, they are unlikely to have a lasting effect on police procedures, sentencing, or public perceptions of crime. The murders of Letisha Shakespeare and Charlene Ellis have already done so.

Shakespeare and Ellis died on January 2nd, when a group of revellers were sprayed with submachinegun fire outside a Birmingham hair salon. Two other girls were wounded in the attack, which remains unsolved. It is widely believed, however, that the victims were caught up in a turf war between two rival gangs, the Johnson Crew and the Burger Bar Boys.

The murders were compelling for several reasons. The girls' race (both were black) and the manner of their deaths conjured up images of the American ghetto. The behaviour of the gunman—at once calculated and indifferent, not seeming to care who ended up dead—hinted at the evolution of a brutal honour code. Many blamed the murders on a burgeoning inner-city “gun culture”. Quickly, a firearms amnesty was declared—the first since the 1996 Dunblane massacre. Tough new sentences for firearms possession will be introduced shortly.



Murder is declining in the countries Britain likes to compare itself with. The number of homicides in America fell from 24,700 to around 16,000 between 1991 and 2001, with lawless cities like New York leading the way. In France and Germany, it is down by more than a quarter since 1995. Yet Britain's homicide rate has risen steadily (see chart).

Fears that the South Bronx has somehow migrated to Britain are, however, misplaced. Gun crime and black-on-black killings are both on the increase, but neither can fully explain the rise in the murder rate. Over the past three years, there have been 230 victims of shooting, compared with 345 who died after being hit or kicked. Stabbing was by far the most common method of killing, accounting for 693 deaths—a fact now being stressed by victims' families, some of whom have criticised the current gun amnesty.

Murder also remains an overwhelmingly white crime. London is the only area where white victims (and perpetrators) are in a minority. The capital has a long history of “outsider” killers, with the current panic over Uzi-toting Yardies echoing early 20th-century fears of Sicilian gangsters and East European anarchists. Yet the capital's murder rate has been one of the few criminological constants of the past two decades, having held steady at around 200 per year.

The big growth area of recent years has been in young working-class men killing one another in provincial towns and cities. Although some of these men have fallen victim to drug-fuelled turf wars, alcohol appears to be a more important trigger. Fiona Brookman, who wrote a recent Home Office study, believes that the killer or the victim (or both) are drunk in about half of all male-on-male murders. The government takes what it sees as the rising tide of yobbishness very seriously: a new bill will soon go before Parliament giving the police and the courts new powers to deal with the anti-social behaviour that often leads to something worse.

Alcohol is also important in Scotland and Ireland. Murderousness is rife in Scotland, with more than a 100 killings in each of the past two years. Strathclyde's estates are the epicentre: five Glaswegians were killed in one 48-hour spell last month. The Republic of Ireland used to be more peaceful, although its murder rate has trebled in the past ten years and now stands at 62. Ian O'Donnell, of University College Dublin, blames the increase on migration (labourers coming back from London), growing social inequality, and a rapid increase in beer consumption.

Still, rising murder rates ought to be kept in perspective. Ireland's death toll last year was the worst in living memory, but it was lower than at any time in the 19th century. As the country turned from a lawless colony into a viable state, people stopped resolving disputes through violence—at least for a

while. The same happened earlier in England. In Southwark, the murder rate dropped from 8.1 to 0.9 per 100,000 people between 1660 and the late 18th century (the current rate for England and Wales is around 1.6 per 100,000). And what sort of murders took place? According to J. A. Sharpe, a York University historian, it was “mostly two guys getting drunk and having a fight”. In short, the same sort of stuff that is so common today.

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George Galloway

For love or money?

Apr 24th 2003
From The Economist print edition

The curious career of George Galloway

WITH a taste for the high life and unpopular causes, George Galloway, a Labour MP, has long lived dangerously. Boasting a permanent sun-tan and an eye for the girls, “Gorgeous George” has drifted round the Middle East for years, visiting Iraq and paying court to Saddam Hussein.

The aftermath of the Iraq war was always going to be difficult for a politician who had attacked Tony Blair and George Bush as “wolves” and had hailed Saddam's “courage and strength”. But until this week nobody had dared to suggest that Mr Galloway was in Mr Hussein's pay. Then the *Daily Telegraph* published documents it said it found in the Foreign Ministry in Baghdad, which it claimed showed that Mr Galloway received secret payments of at least £375,000 ($560,000) from the Iraqi regime, and that, in December 1999, he met an Iraqi intelligence officer and demanded more money.

Mr Galloway denies the charges and says the paper is “the sewer of choice” for forged documents by western intelligence agencies. Though he admits he was in Baghdad at the time of the alleged meeting, he says he has never solicited or received money from the Iraqi regime. He insists that the only money he ever got came from the United Arab Emirates, Saudi Arabia and a Jordanian businessman.

If Mr Galloway is telling the truth, he may do well out of it. Previous libel suits have earned him an estimated £250,000, including £100,000 plus £50,000 costs from the *Daily Mirror*, part of which he used to buy a red Mercedes convertible. It is possible that he is, as he says, a victim of an intelligence plot, but not likely. Forged documents are usually quickly exposed, and he isn't important enough for a western intelligence agency to take such a risk. But until he opens up the books of the organisations which have helped finance his foreign travel, it is hard to be sure.

In the register of MPs' interests, Mr Galloway noted that in September-November 1999 he had visited 11 countries as chairman of the Mariam Appeal, which was initially launched to fly a sick Iraqi girl to Britain for treatment. Another organisation, the Great Britain Iraq Society, which he also chairs, paid for visits to Iraq, Jordan, Syria and the Lebanon. Neither is a registered charity so no accounts are published. One possibility, which Mr Galloway has not denied, is that it has received money from Iraq unwittingly. He has admitted that the Mariam appeal received £200,000 from a Jordanian businessman, Fawaz Zureikat, whom he had appointed as his representative in Baghdad.

The Labour Party, as well as the press, is after Mr Galloway. The party executive has begun an inquiry into his attacks on the prime minister and his financial affairs. Anyway, his Glasgow seat is about to disappear in a boundary redistribution. Whatever happens between him and the *Daily Telegraph*, his career as a Labour MP may be nearing its end.

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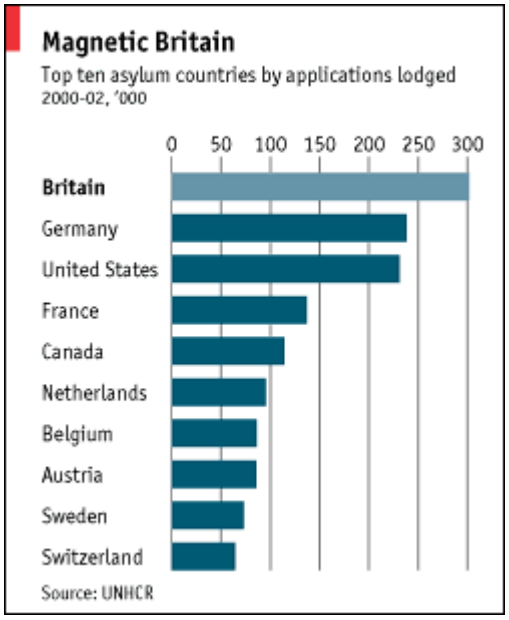
Asylum-seekers

The place to be

Apr 24th 2003
From The Economist print edition

An accolade Britain doesn't want



FLATTERING, but troubling too: new figures from the United Nations High Commission for Refugees show that Britain is the most popular destination in the industrialised world for asylum-seekers. It gets even more than America, and its share of the European Union (EU) total has risen from 5% in 1992 to 29% now.

Part of the reason for the growth in Britain's share of EU asylum-seekers is that Germany's was so high in the years after the collapse of the Berlin wall, and has since fallen. But it is also because other countries have been toughening their laws—speeding up deportations, holding applicants in unpleasant conditions, and turning the evidently bogus back at the border. British judges make it harder to take such measures here.

The influx brings benefits, such as cheap labour, but also costs—for example in the taxpayer-funded treatment of diseases such as tuberculosis and HIV/AIDS. Most importantly, it is more than the public feels comfortable with. Hence Tony Blair's rash and probably impossible promise in February, to halve asylum applications by this September.

One option is just to be nastier to applicants. This has worked in Australia, which started sending asylum-seekers to inhospitable holding camps last year. Since then, application numbers have halved. British immigration hawks want something similar, including withdrawal from two international conventions that rule out such tough measures.

The government is trying to tweak the system to make it work better. It has imposed visa regimes on ten countries, including Jamaica, that were the source of lots of dodgy-looking applications. It has shortened the period during which people can apply for asylum. And, since April 1st, it has replaced “exceptional leave to remain”, which allowed failed asylum-seekers to stay when they could not be sent home, with a smaller loophole.

The Home Office says all this has already dented the numbers arriving, and tougher deportation procedures will make the system less leaky. In the longer term, the government is thinking of paying countries like Albania to run holding-centres to keep the problem offshore. It is hard to see that working, though: if the camps offer a realistic chance of getting to Britain, they will be swamped; if not, refugees will try other routes.

The only long-term solution is to make conditions better in the countries that asylum-seekers come from. There has already been a sharp drop in claims from Afghanistan, and officials now expect the same from Iraq.

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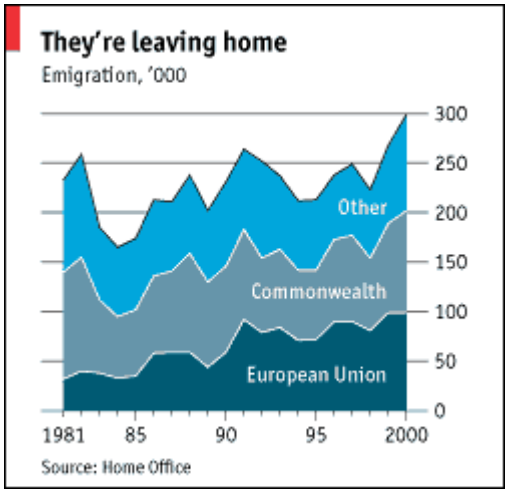
Emigration

The pull of Provence

Apr 24th 2003
From The Economist print edition

Emigration is at a peak, as Britons flood into Europe



WHILE asylum-seekers are scrabbling to get in to Britain, Britons, it seems, are desperate to get out. Nearly 300,000 people emigrated from Britain in 2000, the most recent year for which figures are available—more than at any point over the past 20 years, and, as far as the Office of National Statistics can tell from its patchy records, the highest number ever. The idea of moving elsewhere is so popular that the BBC is currently screening a programme called "Get a New Life" which sees wannabe migrants given a helping hand with making a go of things abroad. A recent YouGov survey found that 54% of people would like to settle in another country.

What's unusual is that this should be happening when unemployment is so low. In the past, harsh economic times have been the motor for mass emigration. Previous peaks were in 1981 and 1991, when the economy was in recession and unemployment rising.

So why do so many want to get out? Some three-quarters of wannabe migrants believe that the quality of life in Britain is deteriorating, according to a recent survey in *Emigrate* magazine. For deteriorating quality of life, read: the relatively high cost of living; the rise in crime; traffic on the M25 often at a standstill; council taxes soaring; lack of space. Such is the pressure in the south-east that Kent county council is urging people to move across the Channel to France. "Is it any wonder that the thought of emigrating lurks in so many people's minds?", asks Susan Crook, producer of "Get a New Life".

But while discontent with life in Britain may have increased, the main reason for the rising numbers of emigrants is probably less to do with their origin than their destination: mainland Europe. Until relatively recently, most emigrants headed for the big five—Canada, Australia, New Zealand, South Africa and the United States—but the past 20 years has seen a sharp rise in the number of people heading across the Channel (see chart).

Being able to work without a permit is among Europe's main attractions, says Penelope Rance, who edits several publications aimed at migrants. So are the weather and the relative cheapness of property—both big attractions among those planning to join the large ex-pat retirement colonies in places like the Costa del Sol. Then there is the relaxed lifestyle and the endless cheap plonk on tap in Brittany and Provence. The growing ease of access and greater familiarity with the Continent, fuelled by the massive growth in low-cost air travel, is also important.

Whether or not the grass really is greener is a moot point. Life for the emigrants portrayed on "Get a New Life" was no breeze. Ms Crook says that their resilience determined their ability to cope—much as it does at home.

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Cultural differences

A spat over spit

Apr 24th 2003
From The Economist print edition

The problem of gobbing yobs

Sky Sports News

Great expectorations

FOR some years, the English and Scottish football Premier Leagues have been a beacon of cosmopolitan enlightenment. On any given Saturday, about half the players plying their trade are likely to be from overseas. But this admirable diversity has given rise to a troubling cultural conflict.

The problem is spittle, which has recently been flying in all directions. In the last few weeks, Lorenzo Amoruso of Glasgow Rangers has been suspended for four games after video evidence convicted him of spitting at an opponent in a cup tie; Christophe Dugarry, Birmingham City's French international striker, has been charged with “indecent conduct” after letting fly with well-aimed gob at an Aston Villa player; and El Hadji Diouf, Liverpool's Senegalese star, who sprayed some Celtic supporters with the contents of his mouth, was fined £58,000 ($92,000) by his horrified club.

The old pros who scratch a living by appearing as “analysers” on television footie programmes explain that what these benighted foreigners don't see is that “in our culture” spitting at someone is absolutely the worst thing you can do. Much worse, apparently, than a punch or a career-threatening tackle.

Indeed, a few seasons ago, Patrick Vieira, currently captain of Arsenal, was suspended for a record six games and fined £45,000 after spitting at Neil “Razor” Ruddock. Mr Ruddock, speaking later on television remarked emolliently that he “could still smell the garlic”.

Sadly, the idea that spitting is the preserve of nasty frogs and wops came a cropper last weekend when the best young English player for years, Everton's Wayne Rooney, launched a mouthful of phlegm roughly in the direction of some Liverpool supporters who had been barracking him. Merseyside police said no action would be taken against the 17-year-old, but they would be talking to him about his disgraceful behaviour. Hasn't the boy got fists?

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Devolution's first four years

Bringing home the bacon

Apr 24th 2003 | CARDIFF AND EDINBURGH
From The Economist print edition

The politics of pork have dominated devolution, but that may be changing

Get article background

FOUR years ago, the biggest constitutional innovation in Britain since the Act of Union in 1707 set up the Scottish Parliament and the Welsh Assembly. On May 1st, the second assembly elections in Scotland and Wales are due to take place. But reality does not seem to have matched up to the grandeur of the vision. In a recent online poll in Scotland, 29% thought the Parliament a failure, while 26% thought it a success. Newspapers, which had campaigned vociferously for devolution, became increasingly hostile. Admittedly, politicians, dogged by sleaze allegations, gave them good cause.

If voters are unimpressed, it is perhaps not surprising. The Scottish and Welsh assemblies have been dominated by the politics of the pork barrel. Scots pensioners, unlike English old people, get free central heating installation, free bus travel, and free personal care. In Wales, there are free eye and dental checks, and free prescriptions for young and old.

And as budgets are rising fast (in Scotland from £20.9 billion last year to £25.9 billion in 2005-06, in Wales from £10.5 billion to £12.7 billion), the campaign has been dominated by a competition to hand out most to most interest groups. Scottish Labour promises nurses a 10% pay rise, the SNP pledges 11%; Welsh Labour says it will abolish all prescription charges; Welsh Nationalists promise free home help for the long-term disabled and the old.

Since the politicians in Scotland and Wales are not responsible for raising most of what they spend, it is not surprising if they have concentrated on distributing goodies. But there are signs of an emerging understanding that politics does not consist only in handing out taxpayers' money. The Scottish Lib Dems and the Scottish National Party have dropped 1999 plans to raise taxes. Labour has promised to freeze local business taxes, while the SNP is promising to cut them. (So are the Tories, but they do not matter: they are still damned by the ghost of Margaret Thatcher, a bogeywoman on the Celtic fringe.)

The SNP's policy shift is partly a response to business complaints that local tax rates in Scotland are around 9% higher than in England and partly a signal that the party is now business-friendly. But it is also designed to shove the poor performance of the Scottish economy up the political agenda.

The average Scottish growth rate in 1973-2001 was 1.6% a year compared with British growth of 2.1%. The divergence has widened in recent years. The SNP believes that the only way to boost economic growth is to devolve all tax-raising power north of the border to the Scottish Parliament, and it has won some business and academic support for this ambition.

Labour has been sufficiently alarmed by this for Gordon Brown, the chancellor, to travel to Edinburgh on April 22nd to denounce the SNP policy as “an attempt to use Scottish business as their battering ram for independence”. Mr Brown argues that making the workforce more skilled and exploiting the country's science base to help existing firms to be more innovative is a surer route to success. Jack McConnell, the first minister, says he would make improving the low Scottish growth rate a priority in a second term. The difficulty of doing so without greater power over fiscal matters may well lead to a power struggle between Edinburgh and Westminster.

There will also be other struggles. Labour's plans to strip councillors of their power over school budgets (see article) implies a big fight with local councils since, minus school budgets, they would become pretty powerless creatures. And the Lib Dems' desire for proportional representation in council elections will mean a fight with Labour.

Since a Labour-Lib Dem coalition is still the likeliest outcome in both Scotland and Wales, the Scottish Parliament's second term is likely to be dominated by a battle between the Scottish Executive and local government. The Welsh Assembly, meanwhile, is likely to start fighting Westminster for more law-making power.

Scottish and Welsh voters are mainly concerned that devolution should make their countries work better. Instead, they are likely to get politicians slugging away at each other.

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Public services in Scotland and Wales

Break it up

Apr 24th 2003 | CARDIFF AND EDINBURGH
From The Economist print edition

New ideas for running health and education

Get article background

IT WAS hoped that, with devolution, different ways of delivering public services would emerge, allowing all of Britain to benefit from seeing which experiment worked best. That seems to be happening.

Both the Scottish and Welsh governments have rejected Labour's plan to reform the National Health Service (NHS) by making hospitals semi-independent with partly-elected boards, and are abolishing the remains of the hospital trusts set up by the Tories. Instead, the Welsh Assembly has replaced five big health authorities with 22 health boards. These have the same boundaries as local councils, which will get a greater say in health services in return for integrating their social services with health care. The new boards will control three-quarters of the Welsh health budget. Some, such as the British Medical Association, think this will improve service delivery.

Scottish politicians have a different model in mind. A pre-election white paper proposed that local "community health partnerships" would replace trusts. These partnerships—involving doctors, pharmacists, local councils—would be responsible for the delivery of health care.

Though the models are different, the aim is the same—to put more decision-making in local professional hands. Why do Scottish and Welsh politicians feel free to do something that Westminster has not? Perhaps because, since they run smaller shops than the health secretary for England, Alan Milburn, they have more contact with, and therefore more faith in, those at the coalface.

The same theme emerges from another Scottish Labour proposal, to devolve the management of 90% of school budgets to headteachers. In return for this autonomy, which a lot of heads welcome, Labour says that it wants the power to fire heads of under-performing schools.

Wales's main educational innovation is a new exam system to compete with A-levels. The new system, called the Welsh baccalaureate, is about to be piloted in 19 schools. It offers a broader curriculum than A-levels, combining science, language and humanities courses with vocational and academic variations. It was championed by the Institute of Welsh Affairs, a think-tank, whose director, John Osmond, says it should encourage a lot more Welsh teenagers to stay at school after the age of 16.

Maybe these ideas will work. Maybe they won't. But in a country as unitary and homogenous as Britain, a bit of variety must be a good thing.

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Television voting

Pol idol

Apr 24th 2003
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Television voting may not be the revolution the government hopes

IT WORKED for wannabe pop stars. Now politicians want it too. The government has given the go-ahead for the world's first pilot of television voting, via the remote control, in three local authorities—Kerrier, Shrewsbury & Atcham, and Swindon—at next week's local elections. Since couch potatoes will not go to the polls, goes the thinking, the polls will come to the telly.

Britain has become an acknowledged pioneer in interactive TV. In the second half of 2002, BSkyB, the leading pay-TV operator, made £91m in revenues from interactive TV. Every self-respecting talent or reality-TV show these days allows viewers to zap contestants with a touch of the remote control. And revenue from TV voting has become an increasingly important element in the business model for such game shows.

The contrast between the enthusiasm with which people vote in reality-TV shows and apathy at the real polls is stark. In the final of “Pop Idol”, a talent contest judged by viewers, nearly 9m votes came in—more than the number cast by young people at the 2001 general election. If young Britons are so adept at voting for aspirant pop stars on the TV, reckons the government, they might as well vote for aspirant politicians on the TV too.

Voters will be issued with a PIN, which they must enter before casting their vote. Americans may still be counting dimpled chads, but these pilots are part of a government project designed to hold an “e-election” by 2006.

But will TV voting really boost voter turn-out? Britain's Electoral Commission tested other forms of electronic voting, including by internet and text-message, in 30 local authorities at local elections last May. Across the pilot schemes, some of which did not include high-tech voting, average turn-out was indeed up on previous elections. And a fair number of young people logged on to their PC to vote: nearly 25% of under 24-year-olds in Swindon, for instance, compared with 3% of the over-60s.

But the method that improved turn-out the most—doubling it in one local authority, South Tyneside—was an exclusively postal ballot. For judging grey men in suits, it seems, rather than Britney wannabes in stilettos, the old-fashioned post-box beats high-tech voting hands down.

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Education

Testing times

Apr 24th 2003
From The Economist print edition

Cross teachers do not mean happy schools

REAL reform of education would certainly mean annoying the more militant people in the teaching unions. Bad teachers need to be weeded out, there should be more outsiders in the classroom, and pay scales should reflect market conditions, not centralised bargaining.

But howls of protest from the unions are not necessarily a sign that things are improving. Amid the usual gripes about money, overwork and threats to their monopoly status, the teaching unions' annual conferences this weekend had two quite reasonable complaints about the government's education policy.

The first is tests. English and Welsh schoolchildren are among the most heavily tested in the world. They typically lose more than 44 weeks of teaching time on tests and exams between the ages of seven and 18. This produces a blizzard of information for policymakers, employers and parents, including league tables much scrutinised by the choosy middle-classes.

But this information comes at a heavy price if exams become a substitute for real education. Teachers complain, convincingly, that they end up cramming their charges to get good results, rather than actually teaching them. Now the National Union of Teachers (NUT) has voted to boycott all tests for two million 7-14-year-olds.

What this will mean in practice is another matter. The other, smaller, teaching unions think that a boycott won't work. Parents may support abolishing tests for seven-year-olds, but not for older children. Going back to the information famine of ten years ago is not the answer, but there is a strong case for making the tests less time-consuming, and finding other measures of school performance.

The second big beef is the strain that violent or disruptive children put on the system. One reason for this is the increasing reluctance of local education authorities to back headteachers when they exclude pupils. Another is the policy of putting disruptive or handicapped children in regular classrooms.

This is supposedly for reasons of “inclusion”—and there are indeed strong arguments for including children with physical disabilities in mainstream education wherever possible. But when behavioural problems are involved, it is the other pupils who suffer.

Teachers complain, with reason, that the real motive for the policy is to save money: dumping difficult pupils in an ordinary school is much cheaper than making separate provision for them. In the meantime, complained one teacher, the only practical solution is to bribe troublemakers to sit still by giving them sweets.

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Bagehot

The strange resurrection of IDS

Apr 24th 2003
From The Economist print edition

Shock news: Iain Duncan Smith to keep his job

Get article background

THIS was to have been the great test. A bad result in next week's local government elections and Iain Duncan Smith would be left hanging by his fingernails, while a disorderly queue of Tory MPs formed to pitch their hapless leader into the abyss. All Kenneth Clarke had to do was wait for the call from a grateful and repentant party.

Only a few months ago the idea that these elections could finish the Conservative leader had almost achieved the status of received wisdom at Westminster. So much so that those around Mr Duncan Smith have tried to manage expectations downward to a point of near-absurdity. A net gain of only 50 seats (out of 10,379 the Conservatives are contesting) would be a vindication of Mr Duncan Smith's leadership, proof that “the strategy” was on track. Anything more would be a triumph. A great deal was made of the difficulty of even matching the results of four years ago, as if 1999 had marked some kind of never-to-be-repeated apotheosis of Conservatism.

Never mind that to make even a fight of the next general election, the Tories would need to gain, according to Colin Rallings, a psephologist, at least 500 seats. For the embattled Tory leader, the definition of success would be survival.

It's funny how things can change. Mr Duncan Smith's personal poll ratings may not have enjoyed a Baghdad bounce (according to the latest ICM poll in the *Guardian*, despite his principled support for Tony Blair's now quite popular war, he has a minus rating of 17, while approval for the prime minister has shot up to plus 7). But, oddly, he is now safer than at any time in the past six months.

Partly this is because the Conservatives' private polling is suggesting that they should, against all odds, put up a fairly respectable performance next Thursday. Although most polls give the government a lead of around ten points over the Tories, wider than in the past couple of months, the disillusionment of Labour's predominantly anti-war activists will hinder getting the vote out. At the same time, while local issues, especially the performance of individual councils, are expected to dominate the local elections, the boost the Liberal Democrats received from their opposition to the war has evaporated. Stefan Shakespeare, the Tories' new polling guru, has told Mr Duncan Smith that the expected differential turn-out between Labour and Conservative voters could mean a gain between 200 and 300 seats—good enough to sell as a success.

Another reason for Mr Duncan Smith's new-found security is the peculiar implosion of Mr Clarke. After Michael Portillo confirmed in both word and deed what most people already suspected—that he is quite happy to undermine Mr Duncan Smith whenever the opportunity arises, but he no longer has the stomach to be a serious player—Mr Clarke was the only figure left around which potential rebels could easily coalesce. However, since his extraordinary intervention in the debate over Iraq, Mr Clarke has in effect destroyed whatever chances he might have had of leading the party.

Quite why Mr Clarke did what he did remains a mystery. But instead of making the kind of coolly sceptical speech that would have positioned him well whatever had happened, Mr Clarke delivered an absolute no-going-back, rip-snorter of an attack on the Iraq policy of both front benches that was every bit as terminal as Robin Cook's resignation statement. It wasn't just because of what Mr Clarke said about going to war with Iraq, intemperate though that was; it was the feeling that he was very deliberately siding with the French and the Germans that did him the most damage. Given the already grave doubts about whether he could temper his Europhile instincts sufficiently to lead the Conservative

Party, it was an act of political self-destruction.

Why breaking up is hard to do

Mr Clarke's effective disappearance has left David Davis as the only semi-realistic threat to Mr Duncan Smith. However, Mr Davis, shadow to the deputy prime minister, is held back by his lack of support among MPs. He is not widely trusted and has so far made little effort to build bridges with Mr Duncan Smith's most pertinent and numerous critics, the modernising social liberals abandoned by Mr Portillo. Few doubt that Mr Davis is ambitious and disaffected enough to wield the assassin's knife, but his currently rather slim chances of being the ultimate beneficiary should stay his hand.

Without a plausible challenger to Mr Duncan Smith, it is difficult to see how he can be shifted. Before any more attractive alternatives could be brought into play, such as Oliver Letwin, the shadow home secretary, or a capable old warhorse like Michael Howard, the shadow chancellor, 25 MPs must sign a motion demanding a vote of no confidence within the parliamentary party. Such a public blood-letting followed by a series of ballots at Westminster and finally a poll of all the party's members in the country, with its many attendant uncertainties, is enough to make the most recklessly disloyal MP pause.

The one thing that might make Conservative MPs desperate enough to act would be a couple of polls putting the Liberal Democrats in second place. There are not many existing Tory seats in which Labour can expect to make further inroads, but a lot of MPs would be vulnerable to that kind of Lib Dem breakthrough. Under those, not very likely, circumstances, anything could happen.

But for now, while very few Conservative MPs believe they have a leader who will maximise the Tory vote at the next election, thereby creating the kind of electoral platform from which to mount a credible challenge to Labour in 2010, most are resigned to the leader they've got. Unhappily for both of them, Mr Duncan Smith and his party are stuck with each other.

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The drugs industry

Where the money is

Apr 24th 2003 | NEW YORK
From The Economist print edition

Is Big Pharma the next target for attack?

Get article background

BIG Tobacco, Big Banking—and now Big Pharma? It seems fanciful to speculate during a week in which Pfizer reported profits, for its latest quarter, of $4.7 billion, that America's mighty pharmaceuticals giants might find themselves vulnerable to the political attacks that have tormented some of America's other large industries.

Yet the parallels mount. Like the tobacco firms and investment banks before them, drugs firms face a dynamic, grassroots movement, centred on the states and driven by powerful economics, that bypasses their well-financed defences in Washington, DC. Disarmed of their lobbyists and friends in Congress, they appear to have no compelling answer to these attacks. And their billions of dollars in profits, of course, are precisely what makes them such tempting targets.

The attack on the tobacco industry (worth $22 billion in settlement payments so far to the states alone) focused on smoking's harmful effects, and made full use of the courts. The post-bubble assault on investment banking is highlighting sales and marketing practices, and is using the court of public opinion as much as lawsuits. (New York's attorney-general, Eliot Spitzer, won a $1.4 billion settlement without ever bringing formal charges against banks, nor hinting at what such charges might be.)

The campaign against Big Pharma borrows some of these earlier tactics. States such as Connecticut and (inevitably) New York, thanks to Mr Spitzer, are filing suits against drug firms that challenge sales and marketing practices which the industry says have gone on for years. Connecticut's, for instance, claims that the state “has been scammed by drug companies seeking to make a profit off our neediest citizens”. But so far, these lawsuits seem designed more to harass and distract the drugs industry with bad publicity than to deliver a knock-out punch—though that may change. The real battle involves state governors and their budget officers, and centres on the vexed question of drug pricing.

America spends more money on drugs ($149 billion in the year to February, according to IMS Health, a research firm) than Britain, Canada, France, Germany, Italy, Japan and Spain put together. This is partly because Americans consume more drugs. But prices in America are also much higher. The market has more freedom to set prices than governments allow in Canada, Europe or Japan.

For the drugs companies, the politics of these arrangements have become increasingly toxic. One problem is that voters personally bear more and more of the cost of expensive, branded drugs in America—and hence feel those high prices directly. The lack of a comprehensive prescription-drug benefit for the elderly means that nearly half of elderly Americans lack prescription-drug coverage at some point in the year, according to AARP, a lobby group. Private health insurers, such as Blue Cross Blue Shield, are increasingly shifting the cost of expensive new drugs on to consumers, by introducing higher "co-payments" for branded drugs. Fewer and fewer employers, meanwhile, offer prescription-drug benefits to retired workers. The uninsured tend to pay particularly high prices for their drugs.

At the same time, the internet is making more Americans aware of the high prices they pay for drugs compared with shoppers in other countries. Some have begun to shop for cheaper drugs online from Canadian internet pharmacies which have sprouted along the border.

What cure?

The states, which face the biggest hole in their budgets since the second world war, are finding ways to harness this anger. Although they do not contribute to Medicare, a federally-financed health-care scheme for elderly Americans, the states pay a large chunk of the costs of Medicaid, which provides coverage for the poorest. Medicaid also foots much of the bill for drugs for the elderly because Medicare does not cover prescription drugs.

Some states are following Michigan's pioneering use of approved-drug lists to wring discounts from drugs firms. (Because exclusion from such lists means that doctors must obtain special, hard-to-win approval to prescribe a drug, the industry argues that such tactics amount to holding patients hostage.) Michigan says it saved $45m on its drugs bill last year by demanding discounts from the "average wholesale price" (a reference price for bureaucrats) in order to be included on its list.

Michigan now says it wants the same discount of up to 70% (partly government mandated) enjoyed by the Veterans Health Administration, another big, public-sector buyer, and is inviting other states, such as Wisconsin, South Carolina and Vermont, to join hands. Vermont and Maine, meanwhile, hope to extend the benefits of discounted purchases beyond Medicaid to state employees and other beneficiaries.

So what are the drugs firms to do? The industry used to thwart such tactics by citing "patients' access": everyone has a right to the best drugs, and doctors must remain in charge of prescribing. But as the politics sour, the industry increasingly finds itself having to justify, in more fundamental ways, the prices it charges Americans. Its answers are not wholly convincing.

One handy appeal is to the benefits of the free market. Thus, Big Pharma maintains that America's liberal pricing system stimulates world-beating innovation, as firms spend their R&D dollars more freely in the hope of winning the fatter profits that America offers. Thus, the creeping price controls pursued by the states harm innovation and new-drug development.

Several things undermine this defence. For a start, even America's system is a hybrid mix of free-market liberalism and price controls. The worst-off sometimes get the worst deal because bulk purchasers can negotiate discounts. That may be a political problem, but the industry offers apologetic programmes that dish out free drugs to impoverished Americans. Likewise, many people regard it as unfair that Canadians pay much less money for the same drug than Americans do. American consumers, in effect, subsidise Canadian ones—another political problem that the drugs firms can do little about.

Another problem is the perception that drugs firms somehow rig the market, by bribing doctors with free, or cheap, drugs and spending billions of dollars on advertising to persuade consumers of the virtues of expensive and unnecessary therapies. Connecticut's lawsuit claims that seven drugs firms sold their drugs to doctors and pharmacies at prices well below the rates at which the state reimbursed these customers—and that the drugs firms marketed the "spread" between the two sets of prices as an inducement to buy.

The industry argues that such practices are a way of reimbursing doctors for costs they cannot claim from the states, and that free samples go to the poor. But "the public used to think of us as the men in white coats," says one lobbyist. Now, he says, they are seen as ugly, sales-and-marketing giants that use lawyers, lobbyists and ad men to profit from the public.

In fact, as a percentage of sales, drugs firms spend no more on marketing (10.6%, according to PhRMA,

an industry lobby) than they did in 1997. (Spending on R&D is also unchanged, at about 18% of sales.) What has changed is direct-to-consumer advertising, which rose from $1.1 billion in 1997 to $3 billion in 2001. It is this sharp increase that seems to be changing the way Americans regard drugs firms.

If that is right, the industry's problems could become much worse. As the strains on state, federal and corporate budgets grow heavier in the next year or two, these bulk purchasers will want to shift even more of the cost of branded drugs on to the shoulders of consumers—or simply discourage their use altogether by promoting cheap generic alternatives. Big Pharma will no doubt respond by increasing its own advertising to consumers.

The industry still thinks it has a good story to tell: using more drugs, it says, lowers the overall health-care budget by reducing more costly outlays, such as surgery, as well as getting people back to work faster. But why should politicians such as Mr Spitzer care about the long-term economics, when the short-term opportunities are so enticing?

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Pharmaceuticals

Making straight the furrow

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Can Fred Hassan cure Schering-Plough?

AP

Hassan, the new ploughman

IF ANY firm deserves the dubious title of model for the drug industry's American woes, it is Schering-Plough. In the past two years, its earnings per share have fallen by roughly half on the back of internal problems and external pressures. This week, the firm took a step towards self-help by appointing a new chief executive, Fred Hassan, formerly head of a rival, Pharmacia, which Pfizer bought last year.

Treating Schering-Plough will be a tough challenge. As Anthony Butler, a pharmaceuticals analyst at Lehman Brothers, puts it, “To fix Pharmacia, all Mr Hassan had to do was change a light bulb. At Schering-Plough, he's going to have to rewire the entire company.”

Several government agencies have their eye on the firm. The state attorney's office of Massachusetts is investigating its sales and marketing practices. The Securities and Exchange Commission is preparing to bring a lawsuit alleging that the firm's then chief executive violated new fair-disclosure rules by warning certain investors, but not others, of bad financial news late last year.

Then there is the firm's manufacturing. Last year, it agreed to pay a $500m fine to America's Food and Drug Administration for failing to meet the agency's quality standards. Upgrading facilities will be one of Mr Hassan's most pressing engagements. Indeed, he says that the firm will have to change its culture of manufacturing to be as responsive to the regulators as it is to customers. Mr Hassan is good at cultural re-engineering: at Pharmacia, he was widely credited with smoothing feathers ruffled by an earlier transatlantic merger and bringing a sense of unity to the firm.

Whether Mr Hassan can boost the firm's profits remains to be seen. Its homegrown pipeline of new drugs is rather thin, and competition to fill these gaps with drugs from biotech firms is fierce. Moreover, its best-selling anti-allergy drug, Claritin, lost patent protection last year and the firm's various strategies to maintain market share have yet to show results.

Among its assets are a strong salesforce and Zetia, a cholesterol-lowering medication that could yield $8 billion in annual sales, says Lehman's Mr Butler. But Schering-Plough will have to share those revenues with Merck, its marketing partner, which also has the option to buy the entire joint venture should Schering-Plough ever merge. So how about a merger with Merck? Mr Hassan demurs, “I'm a builder, not a seller,” he says. Maybe. But at Pharmacia he was involved in two mergers.

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Hollywood blockbusters

Mutating

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Coming sooner to a screen near you

Can X-man Wolverine beat the pirates?

WHEN the comic-book mutants return to the big screen next week in “X2: X-Men United”, it will be the biggest simultaneous global film-release ever. 20th Century Fox will unveil the movie over a period of 48 hours—between April 30th and May 2nd—in 93 territories, from Lebanon to Lithuania. In America alone, it will be launched in 3,500 cinemas. While this blitz reflects a change in marketing strategy for blockbuster films, it is also part of Hollywood's efforts to thwart film piracy.

With a rash of other sequels and comic-book remakes due for release—“The Matrix Reloaded”, “The Hulk”, “Charlie's Angels: Full Throttle”—Fox wants X2 to mark the first “event” film of the summer, a season traditionally unburdened by artistic ambition. In the past, studios tended to leave a gap before opening a big film abroad, relying on the publicity of a nice box-office figure at home. Now, however, thanks to the instant exchange of gossip and news online, the marketing spend for a movie at home can reach further if the film is released at the same time abroad.

There is, though, another impulse for X2's simultaneous global release: beating the pirates. “It isn't the only reason,” says Paul Hanneman, head of international sales and strategy at Fox, “but it is a response to piracy levels, which have been rising very fast in Europe in particular.”

As with music, film piracy comes in two forms: online file-sharing, and the sale of contraband recordings. An estimated 500,000 movies are now being illegally downloaded every day. Within days of a film's American release, a good-quality DVD—often a retouched version of a clandestine camcorder copy made at an American preview screening—is available on street markets abroad, and a fuzzy copy before that. While film piracy has long been a headache in Asia, it is now spreading into markets, such as Britain and Australia, not previously seen as a problem.

The “Napsterisation” of film is haunting Hollywood. “It's the biggest problem facing our industry,” says one studio executive: “If what happened to music happens to film and TV there's going to be Armageddon.” The average Hollywood film costs $80m to make and market, a sum that will be hard to justify if revenues collapse. The Motion Picture Association of America estimates that piracy robs American studios of over $3 billion a year—excluding potentially huge losses caused by online file-sharing.

Will simultaneous release solve the problem? It may remove one reason people buy contraband DVDs: impatience. Back in 1999, for instance, pirated copies of “Star Wars: Episode 1” flooded markets in Asia while the film was on American screens. When the film was released in Asia, attendance levels were disappointing. But by itself, it will not halt online film file-sharing. As the music industry has found, it is difficult to wean consumers off the idea that content can be free. The longer the film industry takes to devise a commercial model that allows people to download films legally, the harder the problem will be to overcome.

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Fiat

Seeking help

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Fiat's latest efforts to save itself

Get article background

EARLY next month the new chairman of Fiat, Umberto Agnelli, and its even newer chief executive, Giuseppe Morchio, will fly to New York for a crucial meeting with Rick Wagoner, boss of General Motors (GM), and with John Devine, GM's chief financial officer. Their goal: to persuade the world's biggest carmaker to invest up to $1 billion more in Fiat, on top of an existing investment of $2.4 billion that secured it a 20% stake in Fiat Auto.

On paper, the Italian company does not have to ask. It has a “put option” to sell the remaining 80% to the Americans from January next year. But Fiat bosses privately acknowledge that forcing GM to buy the rest of Fiat Auto would simply result in acrimonious litigation, as GM would be certain to resist taking over a car company that lost *euro*1.3 billion ($1.2 billion) last year. So the put option has now been removed from the agenda: there is no longer any question of GM being landed with Fiat Auto. Instead Fiat bosses are grimly determined to work out their own salvation, returning the group to basics and trying to revive the fortunes of its core car division.

Yet they still want some help from their American chums. Messrs Agnelli and Morchio want GM bosses to stump up their 20% share of the roughly *euro*5 billion recapitalisation that Fiat intends. Full details of Fiat's financial needs and recovery plan will not be given to bankers until June.

The biggest obstacle is GM's own far-from-robust financial condition. Already it has had to take a big charge to write down its stake in Fiat from $2.4 billion to a mere $220m in recognition of the Italian firm's declining fortunes. And GM reckons it could take closer to *euro*7 billion to make Fiat roadworthy again.

But there is clearly some debate taking place inside GM. Mr Wagoner is keen on helping Fiat, not least because it is the most ambitious expression of his strategy of building a GM federation, through which small stakes in companies such as Fuji, Suzuki and Daewoo produce synergies in terms of shared product development. Mr Devine, on the other hand, is leery of such vague investments.

Mr Agnelli, who took the reins earlier this year after the death of his older brother Gianni and the resignation of his appointed successor, Paolo Fresco, now has a clear strategy. He is selling off various peripheral pieces of the sprawling Fiat empire to safeguard the core, which will consist of Fiat Auto, its lorry business (Fiat Iveco), and CNH, its farm- and construction-equipment arm.

For Fiat Auto, the plan is to blitz the market with a variety of new models. One of Fiat's big errors in the 1990s was to stop doing facelifts halfway through the conventional seven-year life of a model. The result was that decent market share for some models quickly faded. With a plethora of facelifts and new models scheduled for the coming year, Fiat seems to have learned something from errors past.

Most ambitiously, it plans a range of Alfa Romeo sports cars designed, with the help of GM, to get it back into North America. Fiat has revived the Alfa Romeo brand with smart new products such as the Alfa 156 sports saloon. It has in the works a selection of high-performance cars, all aimed at the lucrative American market, which its financial woes led it to abandon in the mid-1990s. With a little help from GM and its distribution networks, Alfa hopes to be back in America by 2007. But will that be enough to save Fiat?

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Junk e-mail

Stopping spam

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The volume of unwanted e-mail, or "spam", is soaring. But is there an acceptable way to block it?

READING e-mails each morning used to be a relatively pleasant task for most people, at work or at home. Now it can be as delightful as sorting through the garbage. Offers of "prescription-free Viagra", penis-enlargement treatments, pornography, cheap loans and get-rich-quick schemes are cascading across the internet, pouring billions of unwanted messages—universally known as "spam"—into e-mail in-boxes. The volume of spam has soared recently, threatening to cripple e-mail, the "killer application" that helped to popularise the internet and then became an essential tool for businesses everywhere.

Spam has suddenly become such a headache that pressure is growing for government action to stop it. Next week America's Federal Trade Commission will hold a three-day meeting of regulators, business leaders and consumer activists to discuss ways to curb spam. America Online (AOL) and Microsoft have even joined forces to push for federal legislation to combat it. Earlier this month AOL filed five lawsuits in Virginia, seeking $10m in damages against some of the biggest spammers.

Unwanted bulk e-mail jumped by about 4% in March and now accounts for 45% of overall e-mail traffic, up from only 8% in September 2001, according to Brightmail, a firm that specialises in anti-spam filtering software. Brightmail has an obvious interest in highlighting the problem, but its estimates make sense. Most e-mail users can testify to spam's growth. Using software filters and tips from its own customers, AOL is now blocking an average of 780m junk e-mails daily, or about 100m more e-mails than it actually delivers.

The cost of enlargement

Spam has become more than a nuisance. It is also costly. As well as the storage, transmission and computing costs imposed on internet service providers (ISPs), there is the cost of the time which millions of people spend sifting through and deleting unwanted messages. Ferris Research, a consulting firm, estimates that spam will cost American organisations alone more than $10 billion this year in lost productivity and extra spending to combat it. World-wide costs are much larger.

So far every attempt to curb spam has also imposed costs, in terms of lost convenience or added expense, which most people are not yet willing to pay. If spam continues to grow at such a rapid pace, however, that could change.

Why has spam taken off? The answer seems to be a matter of simple economics. Sending an e-mail incurs no direct cost. Even the cost of sending bulk e-mails is so small that a response rate as low as one in 100,000 justifies many bulk mailings (senders of physical junk mail usually need a response rate of one in 100). E-mail addresses on CDs sell for about $5 per million, and spamming software can be downloaded free from the internet or purchased for just a few hundred dollars.

Spammers have used increasingly sophisticated techniques to get past software filters and to reach ever larger numbers of people. Some spam software scours the web, "scraping" anything that looks like an e-mail address from websites, news groups, chat rooms and subscriber lists. "Dictionary attacks" use software to generate huge lists of made-up e-mail addresses, mostly at big ISPs and web-based e-mail

sites, and then spam them. Any message that does not bounce back as undeliverable has reached a real e-mail address.

Anti-spammers are pursuing both legal and technological remedies. So far, neither has done much to stem the rising tide. Anti-spam legislation of one sort or another has been enacted in 28 American states. Early in April two senators reintroduced anti-spam legislation that failed to pass Congress last year. The bill would impose criminal penalties on bulk e-mailers who disguise their identities or do not provide a genuine “unsubscribe” link to any message (many such links now merely invite more spam). The European Union has gone much further. Last July it passed a directive banning the sending of e-mail unless the recipient has specifically “opted in” to receive it. All EU countries have until October to pass national legislation implementing these severe new rules.

Despite all this legal effort, doubts remain about its effectiveness. Many spammers are difficult to locate and to prosecute. Many others run such small businesses that they are hardly worth suing. On the internet, they can easily operate across borders, making legal pursuit difficult or even impossible.

Moreover, the business community itself is divided about how restrictive laws should be. Large direct-marketing firms which also send unsolicited e-mails would like to see an end to mass mailings by pornographers and other unsavoury types, but are nervous about how far any anti-spam crackdown will go. They are appalled at the EU's “opt-in” scheme, fearing that it will destroy a promising new marketing and advertising medium. Legitimate businesses will be damaged, they say, while those pushing bogus products will simply flout the law.

Others are trying to fight spammers with more sophisticated anti-spam filters. So far, most such filters are based on “black lists” of senders' addresses to be blocked. Many of these run on the computers of ISPs or the main servers of corporate networks. But they fail to block many spammers, who can change their own addresses frequently, and they produce too many “false positives”, blocking genuine messages that the recipient wants.

The most reliable, though extreme, filtering approach is that offered by Microsoft's Hotmail and other web-based e-mail services, which can be set to accept only e-mails from a specific “white list” of approved senders. But for most people this destroys one of the joys of e-mail—receiving unanticipated messages—and takes more time than they want to devote to managing their e-mail. One start-up, IronPort, is offering a system which employs a white-list of firms who post a financial bond guaranteeing good behaviour.

One new idea is “challenge and response” filters which bounce messages back to the sender, asking for a confirmation before accepting the message. Some spammers have already countered this ploy with auto-response software. Another new idea is software that statistically analyses the content of incoming e-mails to find spam, but this has yet to be widely tested and may also be vulnerable to counter-measures by spammers.

There probably is no single solution to spam. Both technology and new laws will be needed—although these might easily impose more costs than they remove. Or perhaps people will take a more active interest in managing their e-mail settings, or simply resign themselves to spending more time using the delete button.

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Russian energy

More power to them

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Who exactly is the latest Russian oil merger meant to benefit?

JUST two weeks ago, rumours abounded that a big international oil company would buy Sibneft, a medium-sized Russian firm—taking a lead from BP, which acquired 50% of Tyumen Oil Company in February. But on April 22nd Yukos, Russia's biggest producer of oil, and Sibneft announced that they would—minority shareholders willing—be tying the knot.

Rather cheekily, they describe their new firm, YukosSibneft, as a “new international super-major”. In terms of reserves or crude-oil production, that is true: it will probably top both ChevronTexaco and TotalFinaElf. But it will be no match for firms such as BP and Exxon Mobil that are much more diversified, both in business and geographical terms. YukosSibneft will still make most of its money from pumping out and exporting crude.

That, to some analysts, makes the business logic behind the merger a little shaky. Both firms could arguably have done better by joining forces with a globally integrated foreign firm than with a Russian one. Russian oil firms are relatively cheap partly because they are so focused on crude. And they have more than enough oil already—their problem is getting the stuff out of the country. The state-owned pipeline system is overstretched, and there has been no louder critic than Mikhail Khodorkovsky, Yukos's boss, of the Russian government's stubborn refusal—until recently—to allow private hands to build and own more pipelines.

The terms of the deal, announced hurriedly and with little detail, also raise some suspicions. Yukos, says James Fenkner at Troika Dialog, a Moscow investment bank, has a history of buying cheap. Yet it paid a premium for Sibneft, already the most expensive firm on the market per barrel of reserves. (It generates more cash per barrel than its rivals, counters Adam Landes of Renaissance Capital.) And the proposed terms of the deal look pretty cushy too: $3 billion in cash to the main Sibneft shareholders, Roman Abramovich and his associates, for a 20% stake (the rest to be converted by a share swap), plus extra-large dividends to Yukos shareholders before the deal is completed. “The smart money may be getting out,” says Mr Fenkner. The goal, at best, may be to prevent the main shareholders losing out from a future drop in oil prices, as well as to allow Mr Abramovich—never an oilman at heart—a graceful and well-cushioned exit.

The merger's other result, though, will be to prevent foreign firms from snapping up a large Russian oil stake for the time being. YukosSibneft will probably be too big to devour in the foreseeable future, and there are no other likely candidates. “A barrel of Russian oil in the ground,” points out Eric Kraus at Sovlink, another investment firm, “is worth about a quarter of what it would be on the books of a globally integrated firm.” There are rumours that the Kremlin put pressure on Mr Abramovich not to sell to a foreigner. Whether or not that is true, the powers-that-be are undoubtedly happier for Russian firms, rather than foreign ones, to control the nation's cheap oil.

And Mr Khodorkovsky too is bound to be pleased. Just a week earlier the government reversed its position on pipeline ownership, giving him and his peers a provisional green light to build a 2m-barrel-a-day link from the oilfields of Western Siberia to the northern port of Murmansk. Now he will be the boss of a company worth around $35 billion, some 30% of the Russian stockmarket, and with more political clout than ever. He has said he will retire in 2007 and has been giving money to various political parties. Whatever his ambitions may be, he is now better placed than ever to realise them.

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Asian aviation

Grounded?

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The plan was to make Hong Kong the hub for all of Asia. Then came SARS

Get article background

THE SARS crisis is inflicting such pain on Asia's airlines that airports in Singapore and Taipei are lowering landing fees in solidarity. But Hong Kong, the airport that is home to the worst hit carriers, Cathay Pacific and Dragonair, has so far done nothing. The Association of Asia-Pacific Airlines (AAPA), to which both carriers belong, is outraged. Hong Kong's airport executives, says Richard Stirland, AAPA's head, “will look not only unreasonable, but ridiculous in the eyes of the aviation world the next time they talk of creating a world-class aviation hub in Hong Kong.”

That hurts. Since its return to Chinese sovereignty and the Asian financial crisis in 1997, Hong Kong has wallowed in an identity crisis. Now that next-door Guangdong province beckons with much cheaper labour and property, how would this high-priced city make a living? The answer: become a world-class hub for its new industrial hinterland, the Pearl River delta, and all of Asia.

Hong Kong's beautiful new airport plays the lead role in this plan. Built by the British architect Sir Norman Foster, Chek Lap Kok, as it is known colloquially, opened in July 1998, and it has been widely assumed ever since that the government intends to privatise it. Already the world's largest cargo airport and one of its busiest overall, CLK can handle 45m passengers a year and its capacity will eventually reach 87m. Government policy toward foreign airlines is fairly liberal. The idea is to make CLK the main stopover for flights to, from and within Asia.

SARS is therefore awkward. As one of the global hotspots of the outbreak, Hong Kong has, in one month, become a pariah instead of a hub. On a normal day, close to 100,000 passengers pass through CLK. On April 10th, to pick one recent day, 31,700 did. “We're in the flow-management business,” says David Pang, its chief executive, but “when the flow becomes a trickle, our core business is under threat.”

So is this the end of Hong Kong's hub aspirations? Ridiculous, says David Dodwell, a consultant with interests in Hong Kong aviation. Yes, SARS is a reminder that Hong Kong is in a region that produces nasty bugs. And yes, times are tough. But London recovered from foot-and-mouth disease, and New York from the West Nile virus and terrorism, to remain hubs. In the long run, nothing can change the fact that Hong Kong has the only classy airport that is within five hours' flying time of half the world's population. Hard to argue with that.

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Face value

Regime change for OPEC?

Apr 24th 2003
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The fall of Saddam Hussein is already spelling trouble for OPEC and its leader, Ali Naimi

Reuters

Get article background

WILL the defeat of Saddam Hussein bring about regime change in the world's oil market? Ever since the inflationary oil shock of the early 1970s, overseen by Zaki Yamani, a Saudi Arabian sheikh, gas-guzzling Americans have dreamed of smashing the OPEC cartel. Some of the oil men close to George Bush privately fantasise about how a pro-American and privatised Iraqi oil sector might, within a decade or so, crank out so much oil that Saudi Arabia, which in effect runs OPEC, would lose its market power. The world would be awash in cheap oil, priced by the forces of supply and demand, not by the anti-western price-fixers now led by Ali Naimi, the Saudi oil minister and *de facto* boss of Saudi Aramco, a state-owned firm with more than 20 times the oil reserves of Exxon Mobil.

Such fantasies may not be far-fetched, judging by the ructions in the oil market since the end of war in Iraq. For a start, OPEC called an emergency meeting in Vienna on April 24th to deal with the fact that the Iraqi war went so swiftly. In anticipation of huge supply disruptions, members of the cartel had flooded the market with oil—which now threatens a price collapse. Two days earlier, Yukos, a big Russian oil firm, said it would buy a local rival, creating an oil giant bigger than France's TotalFinaElf. So it is not just Iraq that may threaten the Saudis; Russia is also becoming a contender. A final blow seemed to come from within Saudi Arabia: well-sourced rumours this week suggested that Mr Naimi is about to be forced out of office.

If this week's OPEC meeting is Mr Naimi's last, the oil world will lose its biggest hitter since Mr Yamani. Mr Naimi's influence has derived not from royal blood—the Saudis prefer a non-royal as oil minister—but from his technical expertise and his canny management of the oil market. When a price plunge in the late 1990s shocked and (relatively) impoverished OPEC, Mr Naimi worked with Venezuela's then-new leader, Hugo Chavez, to revive the cartel with concerted production cuts. That lifted prices from around $10 a barrel in 1998 to nearly $30 a year later, saving Saudi Arabia from financial disaster. The kingdom earned over $80 billion from oil in 2000, its second-highest amount ever, estimates Nawaf Obaid, an expert on Saudi oil.

If Mr Naimi is now on the way out, it is unlikely to be as punishment for the short-term miscalculations that have produced the present glut of oil in world markets. Indeed, reducing that glut will require just the sort of political skills of which he is a master. The trick is not merely to win agreement among OPEC

members in Vienna to cut production, but to get them to make the cuts when they go home. Saudi Arabia is the only country that can usually enforce cartel discipline. If the oil market tightens in the next few weeks, it will be because Mr Naimi—or a successor—has cajoled or bullied smaller cartel members into meeting their quotas. However, in this instance, ensuring that cuts happen should be even easier, as most of the recent increase in output is the responsibility of the Saudis themselves. As Michael Lynch of Strategic Energy & Economic Research, a consultancy, puts it: “The market is in the hands of the Saudis, who are over-producing like crazy and should have no problem cutting back to ‘normal' at the first sign of weakness.” As if to prove the point, Mr Naimi ensured that Saudi Aramco started to reduce its output even before this week's meeting in Vienna.

It is this ability and willingness to turn supply on and off quickly that may enable Saudi Arabia to continue to be the dominant price-setter in the global oil market, whatever American fantasists hope. As Mr Naimi has pointed out, Saudi Arabia maintains an expensive cushion of excess capacity so that it can manage the market. It was this buffer, rather than any non-OPEC production, that came to the rescue when supply was disrupted by events such as the Iranian revolution, the Iran-Iraq war and the first Gulf war. And, as recent weeks made clear, Mr Naimi has used his buffer once again. Neither Iraq—nor, for that matter, Russia—seems likely to develop a similar buffer, despite the market power it brings. To do so would require the investment of many billions of dollars to develop wells that must then be kept largely idle. Russia's mostly private oil firms seem unlikely to waste capital in this way, and Iraq will not be able to do so for many years. Saudi Arabia has the world's largest reserves, and production costs well below Russia's—wags joke that you need only stick a straw in the ground to strike oil. So it could outlast any rival, albeit not painlessly, in a prolonged price war.

Sheikh out

So, why might the Saudis even think of firing Mr Naimi, who has been their oil minister since 1995? The most plausible explanation is that he has lost a power struggle over the role of foreign investment. For years, a faction led by the foreign minister has been pushing to open up the country's natural gas and power sectors to foreign money. Even though this would certainly not involve the full privatisation of Saudi oil into foreign hands, Mr Naimi saw this proposal as an attack on his beloved Aramco and fought it tooth and nail.

He may have lost this battle soon after Saddam lost his. It seems that Exxon Mobil's formidable boss, Lee Raymond, who has long had a testy relationship with Mr Naimi, recently complained via back-door channels to the powers in the House of Saud about the oil minister's obstructionism on the gas deals—suggesting that investment dollars might flow instead to newly liberated Iraq. If the rumours are indeed true, this prospect appears to have worried the Saudi royals enough for them to move against Mr Naimi. Although letting in foreign capital would surely benefit Saudi Arabia—keeping it out never made much sense—it would also be evidence of growing nervousness in the kingdom. That hardly amounts to the end of OPEC. But President Bush's oily friends would be delighted.

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The future of accounts

True and fair is not hard and fast

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For accounts to reflect reality, they need to be more volatile and less precise

THE procession of companies admitting to having lied in their reported accounts has undermined faith in corporate numbers and put the accounting profession under pressure to change its ways. In the 1990s, accountants clearly failed to keep up with the tricks that were devised to help companies inflate their profits. The first priority for those who set accounting rules has been to try to choke off the most obvious loopholes.

Looking further into the future, however, some see the crisis in accounting as an opportunity to change the shape and content of accounts more fundamentally. The growing use of market values for assets and liabilities (instead of the accidental “historic cost” at which they were obtained) is going to make shareholders' equity and profits swing around far more than in the past. Under such circumstances, profits may come to be stated as a range of figures, each of them arrived at by using different accounting assumptions.

This may sound worryingly uncertain, but it might be better than trying to rely on a brittle illusion of accounting exactitude, which is liable to collapse during times of economic strain. For the moment though, the efforts of regulators and standard-setters are focused on five main areas:

•**Pro-forma accounts**. These are the first sets of results produced by companies in America: they are unaudited and do not follow America's GAAP (Generally Accepted Accounting Principles). In the years of the stockmarket bubble they were shamelessly abused. Companies regularly reported huge profits in their pro-forma earnings statements, only to register even larger losses in their official filings with the Securities and Exchange Commission (SEC). Since the end of March this year, companies have been compelled to show how they reconcile their pro-forma figures with the numbers subsequently produced according to GAAP rules, of which there are hundreds.

•**Off-balance-sheet vehicles**. These include the “special-purpose entities” made famous by Enron, which gave them the names of suitably fanciful characters in the Star Wars movies. They allowed the Houston oil trader to hide hundreds of millions of dollars of liabilities from investors' eyes. The Financial Accounting Standards Board (FASB), America's private-sector standard-setter, issued guidance on these vehicles in January, which Ford and General Motors say will have a material impact on their profits this year. But some think that the new rules are weak because they allow exemptions for “qualifying” special-purpose entities.

•**Stock options**. Most significant of all, perhaps, is the attempt to force companies to account for stock options granted to their employees. This week, FASB agreed that the cost of employee stock options should be treated as an expense. The question is, how to value them. The standard-setters may yet have a fight on their hands. In 1994, Congress threatened to take away FASB's standard-setting powers if it did not abandon its attempt to make companies “expense” their stock options. Opposition is gathering once more, although this time recent accounting scandals should lend support to FASB's position.

•**Pension funds**. Another controversial aim is to make companies change the way they account for their employee pension schemes. Britain's new standard on pensions, FRS17, forces them to measure pension assets at market value. In future, if a company's pension fund owes its members more than it owns in assets, the difference will be shown on the balance sheet. Outside Britain, such gaps can be smoothed out over years, with the result that some companies are still recording profits from their pension schemes despite the fact that the schemes themselves are in deficit. Britain's approach will spread: in March, FASB said it would start examining ways to improve accounting for employee pension plans, with the aim of publishing a new standard on pension accounting in America next year.

•**Revenue recognition**. This is the vexed issue of when precisely to include revenue in the accounts—for example, when an order is made, when it is shipped, or when payment is received. Revenue recognition has been the main reason for restatements of accounts by American companies in recent years. Sir David Tweedie, chairman of the International Accounting Standards Board (IASB) in London, and his equivalents around the world want to lay down new rules on when a company can recognise revenue. Again, the effect could be far-reaching: companies could be made to look far smaller if they are prevented from pulling revenue forward from future periods, as many do now.

Future standards

Standard-setters hope that today's mood of financial conservatism will allow them to tighten up other areas of accounting too. For example, Sir David wants all leases—contracts in which a company is committed to pay for the use of an asset over a long period of time—to be recorded on companies' balance sheets as debt. The result would be to make balance sheets larger and debt ratios higher.

Yet another goal is to shift the world's body of accounting standards away from rules (the approach favoured in America) towards principles (more influential in Britain). The hard rules embedded in America's GAAP have helped devious financiers to design structures that obey the letter of the law but ignore the spirit.

But Bob Herz, the new chairman of FASB, is not optimistic about his ability to move GAAP towards principles and away from rules. Because companies and auditors demand certainty in America's litigious market place, the most he can do, he says, is to steer somewhere in between the two approaches.

Standard-setters may find it a struggle to bring in tough new measures. But they have a wider agenda that finance directors will eventually find it hard to resist. They want to stop companies using accounting rules to create the impression that profits rise remorselessly every year—by, in effect, smoothing out their earnings. “We are stripping away management's ability to massage their numbers,” says Sir David.

Peter Holgate, the head technical partner at PricewaterhouseCoopers in London, asks how it is that corporate earnings move upwards in a straight line while the drivers of those results—consumer demand, stockmarkets, interest rates and foreign-exchange rates—bump around much more unevenly.

Clamour for reform began in the 1990s. As share prices soared, people pointed to the growing gap between the book value of companies (what appeared in their accounts) and their market capitalisation (valued on stock exchanges) as evidence of the irrelevance of accounts. The way to make them more relevant (and to stop executives from fiddling them) is, standard-setters believe, to force companies to value more of their assets and liabilities at market prices, to “mark them to market”.

Instead of holding assets and liabilities at historic cost, and depreciating assets by a set amount each year, they maintain that companies should in future be required to mark them to market at the end of each reporting period. Big swings in values will then be passed quickly through the profit-and-loss account or through the shareholders' equity. Inevitably, profits will become far more volatile.

Sir David Tweedie argues that market value is obviously superior to historic cost. When he was an accounting lecturer at the University of Edinburgh in Scotland, he conducted an experiment with a group

of 120 18-year-old students. He sent out of the room the few who were already trained in the historic-cost convention, and found that 95% of the remainder, allowed to think from scratch, said that they would value assets and liabilities at their market value, not according to how much a company had paid for them at some arbitrary moment in the past.

Derivative issues

Using market value for all assets and liabilities will make some difference to how fixed assets are valued. But by far the largest impact of “fair-value accounting”, as the use of market value is called, will be to bring the volatility of financial markets into companies' results. Fair-value accounting, therefore, will affect banks and insurance companies far more than others, because they have the highest proportion of financial assets.

Under a new rule from the IASB—IAS39—derivatives and all financial instruments held for trading purposes will have to be recorded at fair value from 2005, when the IASB's rules become mandatory for all listed companies in the European Union. Eventually, says Sir David, all assets and liabilities should be recorded at fair value. In the meantime, IAS39's halfway house creates a particular problem for banks, or so they claim.

French banks, together with German and British ones, are fighting it hard. Philippe Bordenave, finance director of BNP Paribas, France's largest bank, says that as a result of having to mark its hedging derivatives to market—but not the underlying assets being hedged—its shareholders' equity will become far more volatile. The bank's equity of *euro*40 billion ($44 billion), he says, could swing around by as much as *euro*1 billion from one year to the next, just because of the new rule. “This is artificial volatility with no economic substance,” he argues.

One solution, says Mr Bordenave, would be to use market values for everything, but that might have a graver consequence. Investors may come to have less confidence in accounts because many of the “fair” market values would be unreliable. Indeed, Enron notoriously made use of fair-value accounting to manipulate the worth of its energy contracts. Insurance companies, which are also facing new rules from the IASB forcing them to mark their assets (but not their liabilities) to market, similarly fear that their earnings will become far more volatile and that investors will shun them.

The slow march to market value is probably unstoppable in the long run, because so many accountants now believe that it is the most intellectually valid way to value assets. But nobody knows what will be the consequences of the volatility that would inevitably follow. In the worst case, large numbers of investors could be frightened away from equities.

In future, accounts are likely to become more volatile, more complex and more subjective. Overall, standard-setters admit that people who are not trained in how to read them will have to rely more than ever on experts. But to help readers cope with the complexity of fair value, they intend to introduce a new way of showing companies' income—instead of a single column with turnover and so on, the profit-and-loss statement will be presented in the form of a matrix, in three columns. One column will show gains and losses from changes in fair value, another would show old-fashioned costs and revenues, and the last would show the total of the two.

In future, accounts are likely to become more volatile, more complex and more subjective

Standard-setters also hope to make things a bit easier by simplifying the language used in financial statements. Instead of “debtors”, for example, they would like to have “people who owe us money”; instead of “current assets”, “assets we have at the present time”; and instead of “liabilities”, “where the money came from”.

Try revolution, not evolution

Closing up some obvious loopholes, bringing in more market valuation and taking away some jargon—these are all important changes. Together, though, they amount to patching up the existing system. It is not surprising that accountants have decided to fix what is there already: they are on the whole a conservative bunch and not given to experimentation. Some of them, however, would like to see a far more radical rethink of accounts.

To start with the basics, what are accounts for? Most accountants would probably reply that they are there to give a true picture of a company's performance during a particular period of time. Investors, however, want far more than that: they want a sense of the company's future prospects. In this, though, they are asking accounts to do things that they have never done before, says Robert Merton, a professor at the Harvard Business School. It is a bit like “asking a plough horse to gallop on a racetrack,” he says.

In particular, he believes that users of accounts want them to highlight risks, and he thinks that they should include something similar to banks' value-at-risk (VAR) measures, which show the amount of money that a bank could lose from its trading at any moment in time. VAR systems aim to provide a range of gains and losses under various scenarios. An accounting version would show investors the likelihood of big swings in a company's assets.

Regulators also believe that companies should be obliged to give out new sorts of information. There should be new sections in annual reports on companies' intangible assets and on “key performance indicators”—such as employee turnover, customer acquisition cost or inventory turnover. The single most important thing that regulators could do to improve accounts, says Lynn Turner at Colorado State University and a former chief accountant at the SEC, would be to make companies report audited key performance indicators. Proper insights into a company's business, he says, can highlight accounting shenanigans. Harvey Goldschmid, a commissioner at the SEC, says that the regulator will consider how to get companies to publish key performance indicators “as soon as we realistically can”.

Most of the numbers in accounts are not facts but estimates

In 2000, at the height of the stockmarket bubble, the SEC asked Jeffrey Garten, dean of the Yale School of Management, to lead a task-force to look into intangible assets and new kinds of performance information for companies. One of the task-force's most provocative ideas was that companies' accounts should include information about their management and founding investors. There could be a record of managers' past successes and failures, and a summary of employment contracts. On founding investors, the report suggests adding details of their track record, the length of time that they have in the past held shares after an initial public offering (IPO), and their current intentions (if any) to sell shares in the company.

None of this, however, will address the deepest flaw in accounts, says Baruch Lev, a professor of accounting and finance at the New York University Stern School of Business. This is the reality that most of the numbers in accounts are not facts but estimates. People are not good at estimating things, he says, and no amount of new accounting rules and auditing will change the fact that estimates are fragile and easy to manipulate.

Mr Lev's remedy is to separate company accounts into two pieces: one “core” and one “satellite”. The core part would have the most reliable numbers, or the ones that rely the least on estimates—cashflow would go here, for instance, and perhaps property. The satellite part would contain fair-value numbers and intangible assets, as well as other items.

The company would then have to state in its annual report what percentage of its numbers derive from estimates and what portion are verifiable facts: analysts might choose to apply a discount, reflecting the increased risk, to companies with a high level of estimates. In subsequent years, the company would be obliged to go back and check how well its estimates had measured up to reality, much as governments go back and revise GDP estimates. Over the long run, says Mr Lev, managers of companies would not be able to get away with repeated big misses.

Although companies and their auditors pretend that they can work out a single profit figure and a single net-assets number, the truth is that accountants do not know exactly how much money a company has made, nor exactly how much it is worth at any one moment. Realistically, the best they can hope for is a range—“X corporation made somewhere between $600m and $800m”—depending on, for instance, what assumption is made about the likelihood that its customers will pay all the money that they owe.

Throughout the history of accounting, some folk have called for accounts to be presented in the form of ranges. Mr Holgate, for instance, a partner of the world's largest accounting firm and by no means a wild-eyed radical, believes that presenting profits in this way would be much more realistic. For understandable reasons, though, the world has clung to the illusion of certainty and exactness.

Mr Lev argues that the 1902 annual report for US Steel gives more useful information to investors—monthly production data, for instance—than do many sets of accounts today. At the start of the last century, of course, there were no accounting rules and no auditors. So companies could respond directly

to what their shareholders demanded to know.

Today, the weight of regulation and the ever-present threat of litigation leaves companies with little freedom to experiment with new information and new ways of presenting their numbers. Even though many chief executives say that they would like to show key performance indicators, for instance, they will probably not volunteer any for fear of the consequences. So, although accounts will probably improve over time, do not expect anything radical too soon.

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Wall Street

Specialist help needed

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AP

An investigation of the specialists at the heart of the New York Stock Exchange raises yet more concerns about Wall Street

HARDLY a week goes by without an unflattering light being shone into some corner of America's securities industry. Caught in the beam now is Frank Quattrone, once of Credit Suisse First Boston, who on April 23rd became the first investment banker to face criminal charges linked to recent scandals. Caught also is an institution at the very centre of America's financial markets: the New York Stock Exchange (NYSE). On April 22nd, the NYSE issued an indignant response to press reports that the Securities and Exchange Commission (SEC) was investigating trading violations by “specialists”, the middlemen who carry out trading orders on the floor of the exchange.

The job of specialists is to buy and sell on their clients' behalf. They are not supposed to buy shares for themselves knowing that they can resell them to clients at a profit, a practice known as “front-running”. If buyers are bidding more than sellers are asking, specialists are not allowed to trade for themselves and pocket the spread. They should merely bring buyer and seller together, and then stand aside—meeting, in the ugly language of the NYSE, their “negative obligations”.

The press reports had said that specialists were being investigated for front-running. No, says the NYSE: the inquiry concerns the negative-obligations rule. To most people, the distinction is a fine one. The basic question is the same: did specialists buy shares at a low price, aware that they could sell them immediately for a tiny profit? Fair play in most businesses, this is specifically prohibited by exchange rules.

Experienced traders say the accusations, if true, suggest a scheme so blatant that detection was inevitable. Prices, buyers, sellers and the times of transactions are all documented on trading tickets. Could anyone be so dumb? Surely there is more to it than this? After all, the firms being questioned are sophisticated: Spear, Leeds & Kellogg, a subsidiary of Goldman Sachs; FleetBoston Financial; Bear Wagner, part-owned by Bear Stearns; and two organisations less well known to the public but long established on the exchange, LaBranche and Van der Moolen.

So far, Fleet Boston has acknowledged suspending a specialist who was responsible for trading the shares of General Electric. Todd Christie, head of Spear Leeds, who had been nominated to the board of

the NYSE, was abruptly sacked in late March. The reasons were not made public, and Goldman Sachs says his departure had nothing to do with the investigation. It declined further comment on the probe.

In another era, a hullabaloo such as this might have passed over quickly. Trading scandals are nothing new, and most have been quickly forgotten. In 1999, for instance, the NYSE promised to improve its scrutiny of traders in a settlement with the SEC. One floor broker was banned from the securities industry and two other executives pleaded guilty to criminal charges. The investigation involved activities dating back to the early 1990s, when the NYSE was led by one William Donaldson—whose nomination as head of the SEC recently sailed through Congress.

Times have changed. Wall Street is now the target of ambitious prosecutors as well as of lawyers seeking grounds for private litigation. Given Mr Donaldson's own history at the NYSE and the travails of his predecessor at the SEC, Harvey Pitt, when he was perceived to be protecting firms with which he had been associated as a lawyer, there is likely to be political pressure to pursue this case aggressively.

Another unwelcome shaft of light

Whatever the outcome, the investigation looks sure to shed more light on how the NYSE and specialists operate. This is unlikely to do either much good. It has never been entirely clear how the specialists make their money. They are obliged to provide an orderly market. At times, they may therefore have to build an inventory of shares that are in demand, or otherwise intervene between buyers and sellers. To do that, though, they have to move before their customers—putting them in danger, at least, of front-running or breaking the negative-obligations rule. “Specialists make money based on proprietary knowledge of investor order flow,” says Benn Steil, a fellow at the Council on Foreign Relations. “This is not a by-product; it is what the exchange does.”

The only sure way of ending trading transgressions, says Mr Steil, would be for the SEC to require a change in how orders are handled, insisting that they be executed when they are received. However, that would undermine the value of specialists. In effect, the market would become fully automated.

Increased transparency at the exchange has already had the unintended effect of making specialists' clients—mainly, financial institutions—disgruntled. Rules that came into effect last year, forcing specialists to disclose their order books, have supplied clients with new information about how well, or poorly, their orders are being fulfilled. Some are deeply unhappy. Of course, they will stay with the exchange as long as it is cheap to trade shares there. But the cost of trading a share on the NYSE has risen by 30% in the past four years, according to Elkins/McSherry, a research firm. If that continues, upstart electronic exchanges, which until now the floor-based NYSE has seen off fairly easily, will start to look more attractive.

Still more openness would be welcome. For example, investors are especially keen to know exactly how the NYSE's directors are selected, and how much they are paid. Transparency is vital for what is, in effect, a quasi-public institution, says Charles Elson, a professor at the University of Delaware. Recent turmoil over the NYSE's directors has made a mockery of the exchange's claims to be the first line of investor protection.

In the fairly recent past, departures from the board have included Linda Wachner, whose lingerie company went bankrupt; Martha Stewart, who has been under investigation for insider trading; Michael Carpenter, replaced as the head of Citigroup's investment bank in the aftermath of various scandals; and Jean-Marie Messier, who had a disastrous reign at Vivendi, a French utility turned media empire. In March, the NYSE was forced to withdraw the nomination to the board of Citigroup's boss, Sandy Weill, as a spokesman for investors. Deposed from Spear Leeds, Mr Christie also stood aside.

This sad list could easily grow. On April 15th, the National Association of Securities Dealers filed a complaint against Invemed, an investment bank run by another NYSE director, Kenneth Langone, accusing it of mishandling initial public offerings. Mr Langone is a founder of Home Depot, a do-it-yourself chain, to whose board the NYSE's chief executive, Richard Grasso, was recently appointed. The fashion in corporate-governance circles is to frown on such reciprocal relationships. Still, it could be worse: Mr Grasso's last prominent directorship was at Computer Associates, a company plagued by dubious accounting and mismanaged stock options. Perhaps he believes that investors are best protected by those who have seen sharp practice at first hand.

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German banks

Shuffling the pack

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A cosmetic attempt to repair those balance sheets

FIVE German banks have joined Kreditanstalt für Wiederaufbau (KfW), a state-owned development bank, to create a joint venture that will securitise and sell billions of euros-worth of their loans. The intention is three-fold: to shift loans off their balance sheets; to recycle the proceeds in new loans to the *Mittelstand*—credit-hungry, medium-sized companies; and to put some oomph into Germany's laggard asset-backed-securities market.

All admirable goals, but the exercise smacks of rearranging the deckchairs on the *Titanic*. There were discussions recently between the German government and the banks about creating a "bad" bank as a repository for some of the mounting burden of impaired and non-performing loans (see chart). But the new initiative is emphatically for pooling good loans, not bad, and for creating securities that will command ratings as high as AAA. "This is definitely not the old bad-bank idea," says Caio Koch-Weser, a senior official at the finance ministry, which has put its weight behind the plan.

Indeed. It is a new bad-bank idea. The bad banks will be the participants: having sold off their better loans, their books will look even worse. And then, apparently, they will have liberated more capital to expend on more reckless loans to ailing companies. That at any rate is the worry of Vasco Moreno, head of European bank research at Fox-Pitt, Kelton, an investment bank: "This manoeuvre may only postpone their readiness to take pain and improve their credit control."

The five—Deutsche Bank, Dresdner Bank, Commerzbank, HypoVereinsbank and DZ Bank, a co-operative bank—believe that creating one securities pool will help to establish a brand and promote liquidity. The banks insist that the partnership with KfW is not an attempt to harness its AAA credit rating but to benefit from its expertise. KfW has run programmes for the past three years for securitising mortgages and *Mittelstand* loans. Now it is time to develop a proper market for asset-backed securities. To date, KfW's securitisations have been constructed synthetically, using credit derivatives to avoid corporation tax. The government promises to change the tax law by the summer, to allow securitisations that are a true sale of assets.

German bankers expect that around *euro*10 billion-11 billion ($11 billion-12 billion) might be securitised next year. The scheme will be open to other banks, say the five. Germany's public-sector banks, for instance, are not excluded, but did not reach agreement in time to join at the outset. They also have less incentive to hive off loans, because their capital is guaranteed by the state. But the focus of the initiative seems unnecessarily narrow. Since Germany is part of the euro area, it would have looked better to throw the market open to all banks based in the zone.

That might also have prevented the arousing of suspicion at the European Commission, whose competition watchdog has already taken Germany to task over the cosseting of its banks. The involvement of the finance ministry and a state-owned bank may also offend Anglo-Saxon sensibilities: the American and British treasuries tend to leave the creation of new markets to the private sector.

German officials insist there is no element of subsidy: state-owned KfW is a commercial partner. What is more, there is no reason why the market, once established, should not securitise foreign assets too. "I

see a potential in the wider single European market," says Mr Koch-Weser.

"This is just a way to kick-start the true securitisation of assets in Germany," says a German banker. Maybe German consensus should not be underestimated, and this plan is exactly the push that *Finanzplatz Deutschland* needs. More probably, Germany's banks and economy will stay depressed. Moving loans around may hide problems. It will not solve them.

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Mexican pension funds

Safety first

Apr 24th 2003 | MEXICO CITY
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Are Mexico's successful funds too cautious?

YOU know the story about private pension schemes, at any rate in Britain and America: suffering chronic shortfalls, thanks in no small measure to over-enthusiastic investment in shares. Why, wail most pensioners-to-be, didn't our fund managers put our money into something safer, like dear old government bonds?

Mexico's future pensioners seem rather more fortunate. Thanks to a mixture of regulation and caution, nearly 90% of their pension funds' money is invested in government bonds. Even by the standards of other Latin American countries, this is a high proportion (see chart). Too high, say some: Mexican companies and the economy are suffering as a result.

Since the pension funds (known as Siefores) were privatised in 1997, they have been hailed as a big success. Mexicans' average age is just 27, so there will be a lot of people earning and saving, and not many pensioners for years yet. (Contrast that with doddery old Europe, where unfunded, state pension systems are already buckling.) The Siefores have a big pool of money to invest: $33 billion under management, equivalent to 5% of GDP; in 1997, the ratio was a mere 0.4%. By 2010, estimates the pension funds' regulator, the ratio of the funds' portfolios to GDP will double, and then double again by 2020.

There are good reasons why the Siefores' portfolios are skewed towards government debt. The economic crisis of 1995 exposed a plethora of bad investments. To safeguard pensioners' money, severe restrictions were placed on the Siefores. At least 64% of their portfolios had to be in government bonds. Any corporate bonds they bought had to be rated at least AA, and they were barred from investing in property or shares, unlike pension funds in most other countries.

The rules have produced a ready market for government debt. However, only about 20 Mexican companies have ever been able to issue bonds that the Siefores have bought. These are entities such as Cemex, a cement giant, or Telmex, a telecommunications firm, which dominate their industries and have no problem raising money anyway. The rest of the private sector, meanwhile, complains at being unable to draw on a large and growing reservoir of investment capital. To make matters worse, Mexico's banks have been no more willing to lend to companies, preferring instead to lend, like the pension funds, to the state. Between them, the government, the pension funds and the banks risk crowding out private investment.

The government defends itself by saying that in recent years, with memories of the 1995 crisis receding, it has been relaxing the legal restrictions on the Siefores' investments. The requirement for a minimum investment of 64% in government paper was removed two years ago. The minimum acceptable rating for corporate bonds has been cut to A-.

However, aggrieved companies hungry for finance point out that this has made little difference in practice to the investment decisions of the Siefores. Big funds, such as Banamex, still have no corporate bonds in their portfolios rated below AA. Saúl Escarpulli, who is director of financial planning at Corporación Geo, Mexico's largest house-builder, argues that the Siefores are “too conservative”. His 30-year-old company

has an A rating. He says he has to rely for financing on short-term bank loans at high interest rates instead of on longer-term bonds.

The head of Banamex, Oscar Medina-Mora, says that the funds are not to blame. He argues that companies could do more to help themselves. They could be more imaginative in the type of bonds that they bring to the market, he says, for instance by offering shorter-term bonds if they have lower ratings.

Perhaps the Siefores lack imagination too. Victor Herrera, the head of the Mexico City office of Standard & Poor's, a rating agency, asserts that the situation is now “really bad”. He argues that the Siefores are still devolving risk management to agencies such as his, when they “should be developing their risk-management tools much more than they are today.” The test of the funds' decisions, though, will be the financial health of future pensioners. In richer countries, a little more caution on the part of pension-fund managers would not have come amiss. Could Mexico do with a little less?

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Derivatives exchanges

Clear for take-off

Apr 24th 2003 | CHICAGO AND LONDON
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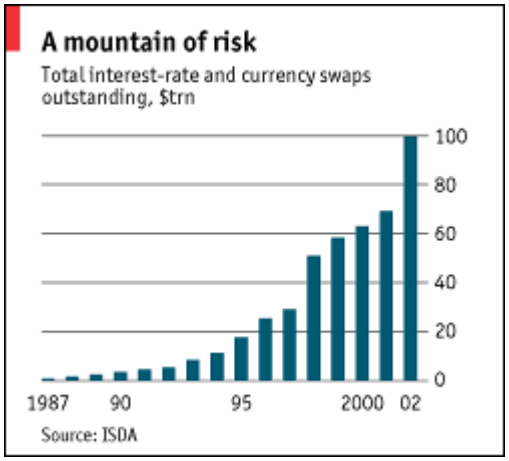
The quest for bigger, better clearing produces a surprising alliance



IT SEEMS that clearing in the derivatives business has grown important enough to drive two Chicago exchanges, bitter rivals for many a year, into each other's arms. Well, almost. The Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT) said last week that they had agreed in principle to share the CME's wholly-owned clearing house for the clearing of contracts traded on both exchanges. The CBOT has until the end of May to work out the details. By January it may have severed its present tie to the separately owned Board of Trade Clearing Corporation (BOTCC).

The consolidation of clearing is increasingly attractive to market participants for several reasons. It pleases regulators. It reduces the operational risk of failed trades. Most important, it gets a lot of credit risk off traders' balance sheets. Since the collapse of Enron and the deterioration of credit quality worldwide, traders of derivatives have been much keener to protect themselves from nasty surprises. According to the International Swaps & Derivatives Association (ISDA), an industry body, the use of collateral to cover derivatives contracts traded outside exchanges has grown rapidly. A recent survey of ISDA members showed that 73 of the world's biggest derivatives firms, including 59 banks and 11 broker-dealers, had $719 billion of collateral in circulation between them to cover bilateral contracts. Last year the figure was $437 billion. Far less collateral would be needed if the contracts were cleared through a multilateral clearing house where more deals could be offset against each other.

For years, derivatives exchanges have sought to capture some of the fantastic growth seen in the over-the-counter (OTC) derivatives market. To some extent, this can be done by creating standardised, exchange-traded contracts that mimic the commonest OTC products. The two Chicago exchanges have done this with five-year and ten-year interest-rate swap contracts with some success. But a greater prize is the creation of a multilateral clearing platform for all manner of complicated bilateral trades. The London Clearing House (LCH) did this in September 1999 with SwapClear, which provides multilateral clearing for interest-rate swaps, ranging up to 30 years, in 12 currencies. Today it has over $10 trillion of swaps on its books. Success with SwapClear earned the LCH a Queen's Award for innovation in Britain this week.

There will be more attempts to harness the OTC market. The LCH is looking at the forward foreign-exchange market, and, perhaps later, at the clearing of credit derivatives—in essence, promises to pay if a borrower defaults—which would be a mighty technical challenge. A new London derivatives exchange, EDX, being developed by the London Stock Exchange and OM Gruppen of Sweden, aims to clear bilateral equity derivatives through the LCH. Werner Seifert, boss of Frankfurt's Deutsche Börse, is keen to embrace more OTC products too. Eurex, Deutsche Börse's derivatives exchange, already facilitates the bilateral trading of bonds and bond-repurchase agreements, cleared through Eurex Clearing. Mr Seifert sees eBay, an online auction house, as a model—after all, each item auctioned on eBay, from a china doll to a Sherman tank, is treated as a unique over-the-counter contract.

There is a broad spectrum, from electronic platforms that allow buyers and sellers to discover prices but not to trade automatically, let alone have their trades cleared and settled, to completely automatic exchanges that carry out every stage of a transaction at the click of a mouse. The world's biggest exchanges are trying not to lose ground to one another or to smaller, opportunistic interlopers that serve only parts of the transaction chain. They have come to realise that the key to trouncing the competition is greater scale and efficiency in clearing.

Hence the entente between the Chicago rivals. Hence also the search by Eurex, which has vowed to establish its own American derivatives exchange by the end of the year, for a clearing partner in the United States. Meanwhile, the LCH has applied to extend its American licence beyond clearing energy contracts for IntercontinentalExchange, an electronic exchange. With such fierce competition for their custom, the big trading banks, which mutually own BOTCC and BrokerTec Futures Exchange, an electronic platform, may try to foster a market in which they can direct their trade to any clearing house they choose, in order to reduce their dependence on exchanges with captive clearing and settlement systems.

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Japanese insurance

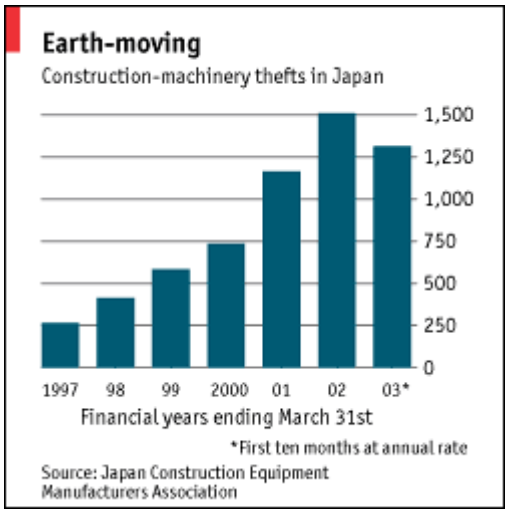
Bulldozed

Apr 24th 2003 | TOKYO
From The Economist print edition

Yet another problem for Japan's insurers

RISING car theft used to be Japanese property-and-casualty insurers' biggest headache. Now there is a new menace: robbers who steal construction machinery, mostly hydraulic excavators, from building sites.

Dealing with car thieves was bad enough. More than 63,000 cars were reported stolen in 2001, a record. This cost insurers some ¥60 billion ($490m), almost 50% more than the year before, and 20 times what they paid out in 1990. In response, a special task-force made up of the police, the transport ministry, customs officials, car companies and insurers was set up. Its first step was to raise public awareness. Japan is, after all, a country used to low crime levels, where many drivers still leave keys in the ignition when they park (and insurers pay out when the cars are then stolen). The insurance industry offered discounts for cars with theft-prevention devices. Although the number of car thefts fell from its peak, it has been creeping up again since November.



The task-force is now drawing up similar plans to fight construction-machinery heists, which have also become more frequent in recent years (see chart). Insurers are particularly concerned about hydraulic excavators—called “power shovels” in Japan—the most popular target for thieves. These are often used in further crimes, such as breaking open automated teller machines (ATMs) which have been stolen from outside supermarkets and banks. This became popular last year: 26 ATMs containing a total of ¥335m in cash were stolen, compared with only one in 2001.

The Marine and Fire Insurance Association of Japan estimates that the industry paid out ¥1.7 billion in claims for stolen construction machinery in the year to March 31st, almost three times the amount of three years before. But insurers also have to pay out on stolen ATMs. The actual machines are thought to cost ¥2m-3m apiece. Insurance on their contents varies widely, but is usually capped.

As with cars, the task-force is trying to persuade construction companies not to leave hydraulic excavators unattended, with the key attached, at building sites at night. Unfortunately, that might not be enough. It turns out that there are only one or two types of key for many models of hydraulic excavator. Manufacturers are making life easy for the thieves.

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Economics focus

McCurrencies

Apr 24th 2003
From The Economist print edition

Hamburgers should be an essential part of every economist's diet

THE past year has been one to relish for fans of burgernomics. Last April *The Economist*'s Big Mac index flashed a strong sell sign for the dollar: it was more overvalued than at any time in the index's history (see article). The dollar has since flipped, falling by 12% in trade-weighted terms.

Invented in 1986 as a light-hearted guide to whether currencies are at their "correct" level, burgernomics is based on the theory of purchasing-power parity (PPP). This says that, in the long run, exchange rates should move toward rates that would equalise the prices of an identical basket of goods and services in any two countries. To put it simply: a dollar should buy the same everywhere. Our basket is a McDonald's Big Mac, produced locally to roughly the same recipe in 118 countries. The Big Mac PPP is the exchange rate that would leave burgers costing the same as in America. Comparing the PPP with the actual rate is one test of whether a currency is undervalued or overvalued.

The first column of the table shows local-currency prices of a Big Mac. The second converts them into dollars. The average price of a Big Mac in four American cities is $2.71. The cheapest burgers are in China ($1.20); the dearest are in Switzerland ($4.52). In other words, the yuan is the most undervalued currency, the Swiss franc the most overvalued. The third column calculates Big Mac PPPs. Dividing the local Chinese price by the American price gives a dollar PPP of 3.65 yuan. The actual exchange rate is 8.28 yuan, implying that the Chinese currency is undervalued by 56% against the dollar. The average price of a Big Mac in the euro area is now exactly the same as in America. This implies that the euro's PPP is exactly $1, so at its current rate of $1.10 the euro is 10% overvalued. The British, Swedish and Danish currencies are still significantly overvalued against the euro.

Among rich economies, the most undervalued currency is the Australian dollar. The Aussie dollar is still 31% below PPP against its American counterpart: its rise over the past year has been largely offset by a fall in the relative price of burgers in Australia. Many emerging-market currencies are undervalued against the dollar by 30-50%. One exception is the South Korean won, which is exactly at its PPP, implying that it is overvalued against other emerging-market currencies.

Many readers complain that burgernomics is hard to swallow. We admit it is flawed: Big Macs are not traded across borders as the PPP theory demands, and prices are distorted by taxes, tariffs, different profit margins and differences in the cost of non-tradables, such as rents. It was never intended as a precise predictor of currency movements, but as a tool to make exchange-rate theory more digestible. Yet in the early 1990s, just before the crisis in Europe's exchange-rate mechanism, it signalled that several currencies, including sterling, were markedly overvalued against the D-mark. It also predicted the fall in the euro after its launch in 1999.

Academic economists are taking burgernomics more seriously, chewing over the Big Mac index in almost a dozen studies. Now a whole book has been written about the index* by Li Lian Ong, of the International Monetary Fund. She says it has been surprisingly accurate in tracking exchange rates in the long term. But there are some persistent deviations from PPP. In particular, emerging-market currencies are consistently undervalued.

Differences in productivity are one explanation of this. Rich countries have higher productivity than poor countries, but their advantage tends to be smaller in non-tradable goods and services than in tradables. Because wages are the same in both sectors, non-tradables are cheaper in poorer countries. Therefore, if currencies are determined by the relative prices of tradables, but PPP is calculated from a basket that includes non-tradables, such as the Big Mac, the currencies of poor countries will always look undervalued. Ms Ong finds that currency deviations from PPP are indeed related to productivity

differences relative to America. After adjusting for this, she finds that the Big Mac index performs better in tracking exchange rates.

The Big Mac index suggests that the dollar is no longer overvalued against the euro. But having overshot PPP, the dollar may well now undershoot, because America's huge current-account deficit is becoming harder to finance. Without stronger domestic demand in Japan and Europe to help trim the deficit, the dollar will have to take more of the strain. What are this year's other hot tips? The Australian dollar is likely to see the biggest gain. The pound will fall further against the euro. And China will come under increasing pressure to revalue the yuan.

The hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate April 22nd	Under (-)/over (+) valuation against the dollar, %
	in local currency	in dollars			
United States†	$2.71	2.71			
Argentina	Peso 4.10	1.43	1.51	2.88	-47
Australia	A$3.00	1.86	1.11	1.61	-31
Brazil	*Real* 4.55	1.48	1.68	3.07	-45
Britain	£1.99	3.14	1.36‡	1.58‡	+16
Canada	C$3.20	2.21	1.18	1.45	-18
Chile	Peso 1,400	1.95	517	716	-28
China	Yuan 9.90	1.20	3.65	8.28	-56
Czech Rep	Koruna 56.57	1.96	20.9	28.9	-28
Denmark	DKr27.75	4.10	10.2	6.78	+51
Egypt	Pound 8.00	1.35	2.95	5.92	-50
Euro area	€2.71	2.97	1.00§	1.10§	+10
Hong Kong	HK$11.50	1.47	4.24	7.80	-46
Hungary	Forint 490	2.18	181	224	-19
Indonesia	Rupiah 16,100	1.84	5,941	8,740	-32
Japan	¥262	2.19	96.7	120	-19
Malaysia	M$5.04	1.33	1.86	3.80	-51
Mexico	Peso 23.00	2.18	8.49	10.53	-19
New Zealand	NZ$3.95	2.21	1.46	1.78	-18
Peru	New Sol 7.90	2.29	2.92	3.46	-16
Philippines	Peso 65.00	1.24	24.0	52.5	-54
Poland	Zloty 6.30	1.62	2.32	3.89	-40
Russia	Rouble 41.00	1.32	15.1	31.1	-51
Singapore	S$3.30	1.86	1.22	1.78	-31
South Africa	Rand 13.95	1.84	5.15	7.56	-32
South Korea	Won 3,300	2.71	1,218	1,220	nil
Sweden	SKr30.00	3.60	11.1	8.34	+33
Switzerland	SFr6.30	4.59	2.32	1.37	+69
Taiwan	NT$70.00	2.01	25.8	34.8	-26
Thailand	Baht 59.00	1.38	21.8	42.7	-49
Turkey	Lira 3,750,000	2.34	1,383,764	1,600,500	-14
Venezuela	Bolivar 3,700	2.32	1,365	1,598	-15

The additional hamburger standard

Aruba	Florin 4.10	2.29	1.51	1.79	-15
Bahrain	Dinar 0.85	2.25	0.31	0.38	-17
Belarus	Ruble 2,450	1.21	904	2,018	-55
Bulgaria	Lev 2.98	1.68	1.10	1.78	-38
Colombia	Peso 6,200	2.13	2,288	2,914	+1
Costa Rica	Colon 1,130	2.89	417	390	+7
Croatia	Kuna 14.9	2.17	5.50	6.87	-20
Dominican Rep.	Peso 60.0	2.61	22.1	23.0	-4
Estonia	Krooni 29.5	2.07	10.9	14.3	-24
Georgia	Lari 3.65	1.65	1.35	2.21	-39
Guatemala	Quetzal 16.0	2.03	5.90	7.87	-25
Honduras	Lempira 25.95	1.51	9.58	17.2	-44
Iceland	Kronur 439	5.79	162	75.8	+114
Jamaica	Jam. $113.04	1.99	41.7	56.7	-26
Kuwait	Dinar 0.65	2.17	0.24	0.30	-20
Lebanon	Pound 4,301	2.85	1,587	1,512	+5
Lithuania	Lita 6.50	2.06	2.40	3.15	-24
Macau	Pataca 11.2	1.39	4.13	8.03	-49
Macedonia	Denar 95.0	1.70	35.1	55.8	-37
Morocco	Dirhams 23.0	2.34	8.49	9.82	-14
Norway	Kroner 39.5	5.51	14.6	7.16	+64
Oman	Rial 0.90	2.34	0.33	0.39	-14
Pakistan	Rupee 99.0	1.71	36.5	57.8	-37
Qatar	Riyal 9.00	2.47	3.32	3.64	-9
Saudi Arabia	Riyal 9.00	2.40	3.32	3.75	-4
Slovakia	Koruna 66.0	1.76	24.4	37.4	-35

(Note: the data appearing under “The additional hamburger standard” in our table does not appear in printed editions of *The Economist*.)

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* “The Big Mac Index: Applications of Purchasing Power Parity”. Published by Palgrave Macmillan, 2003.

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The art of DNA

Back to bases

Apr 24th 2003
From The Economist print edition

Fifty years after its discovery, the double helix is twisting itself ever deeper into popular culture

“WE WISH to suggest a structure for the salt of deoxyribose nucleic acid (D.N.A.).” So began the modest introduction to what turned out to be one of the most momentous papers in the history of biology. It was published exactly 50 years ago, on April 25th 1953, in *Nature*. Now, even, advertisements for IBM boast that the company can help its customers get “into the DNA of business...to turn old processes into new profits”.

Within two generations DNA has moved from academic obscurity—where even scientists needed to see it spelled out—to everyday language, an instantly recognised symbol with little connection to its scientific origins. Much of that cultural shift is courtesy of James Watson and Francis Crick, the authors of the paper in question. The structure they wished to suggest gave birth to an icon: the double helix.

Building on the work of many others, they described how the two spiral chains which make up DNA are coiled around a single axis, and how the two strands unite through the precise pairing of four different types of nucleotide bases—adenine, cytosine, guanine and thymine. Their paper also included a simple pen-and-ink drawing of the molecule, by Odile Crick, Francis's wife. The two researchers had little doubt about their prediction; as Dr Watson later remarked, “A structure this pretty just had to exist.”

As a scientific model, the double helix opened the way to answering many lingering questions in genetics: how hereditary information is stored, how it is copied and passed on from one generation to another, how genetic damage is repaired and how information flows from the level of the gene to the marvellous structures of nature. But the double helix has invaded the wider world, too, and has become a symbol of the hopes and fears that people have about where biological knowledge might lead. When a movie about a genetically engineered future was dubbed “GATTACA” by its creator, he did not need to spell out the fact that the four letters used in the title are the abbreviations for the nucleotide bases—in other words, the letters of the genetic code.

In scientific terms, the model of the double helix, combined with the notion that DNA is a code, has transformed biology. But it has also given people a powerful visual and verbal means to communicate

their concerns about the fruits of this new science—gene prospecting, DNA patenting, genetic testing, designer babies, cloning—and their social consequences. As Susan Lindee, a historian of science at the University of Pennsylvania, in Philadelphia, points out, today the gene is no longer a simple biological unit, but a “supergene” which has been invested with personality, good or bad, and the power to determine identity, reveal ancient origins, shape family relations and even predict future health.

Of course, genetic determinism is nothing new. The code and the double helix have become such powerful cultural symbols in part because they offer a new twist on old ideas about the power of heredity and destiny in the blood. They also fit neatly into existing cultural notions of science, picking up where Prometheus and Frankenstein left off, turning genetics into prime material for novels, films and videogames. Today, according to Soraya de Chadarevian, a historian of science at the University of Cambridge, DNA has taken on almost sacred status as the central blueprint for life, and the double helix has become the instantly identifiable secular equivalent of a modern religious icon.

Artistic tendencies

This new iconography is increasingly reflected in the visual arts. This year has seen half a dozen exhibitions in New York and London, displaying paintings, photography, sculpture and digital works that all take their cue from molecular biology.

Art has long borrowed images and inspiration from science and technology

Art has long borrowed images and inspiration from science and technology. And as Dr Chadarevian points out, the double helix is not the first strong image created by 20th-century science. Physics has also produced a number of potent signs, such as the atomic mushroom cloud and the Bohr atom, with its busy electrons orbiting a nucleus. Indeed, the splitting of the atom strongly influenced abstract painters such as Wassily Kandinsky, says Suzanne Anker, an artist based in New York and co-author of a new book on biology in the arts*. The early years of aviation and motoring also sent the artistic imaginations of Italian and Russian futurists soaring. But the principles of heredity and evolution had to wait until the double helix, and subsequent representations of DNA, to find a visual language.

Nor was the double helix an immediate cultural hit. The first artist to use it was Salvador Dali, who included DNA spirals in his surreal, phantasmagoric paintings of the 1950s. But he was ahead of his time. It took the publication of Dr Watson's book, “The Double Helix”, in 1968, and the advent of biotechnology and the manipulation of genetic material in the 1970s, to edge DNA towards the centre of the public gaze. Since then, however—and particularly since the 1980s—many artists have followed in Dali's wake. The marvellous symmetry and sheer beauty of the double helix has been a boon to sculpture, sending double helices soaring to the sky and snaking to the ground, as the piece by Charles Jencks at the beginning of this article demonstrates.

The first artist to use the double helix was Salvador Dali

Other artists have turned to related genetic structures and images. Ms Anker, for example, recreates chromosomes in sculpture and on canvas, in order, she says, to look at relationships between the body in flesh, its genetic code and primitive alphabets. Kevin Clarke, an American artist, creates “conceptual” genetic portraits by writing out sections of his subject's genetic sequence as a string of As, Cs, Gs and Ts superimposed on an appropriate image—such as, in the case of James Watson, a series of bookshelves.

Some artists use DNA itself as their palette. In the National Portrait Gallery in London there hangs a “picture” of one of Britain's best-known scientists, Sir John Sulston, who was a key figure in the Human Genome Project. But look into this work, by Marc Quinn, and the thing you will see is not Sir John, but your own face in reflection, speckled with white glassy beads. These are bacterial colonies, which have been genetically modified with bits of Sir John's own DNA.

Eduardo Kac, a Brazilian artist, also uses genetic engineering of bacteria and animals to explore relations between science and art, man and nature. His most famous work, “GFP Bunny”, is a rabbit genetically modified to glow green when it is exposed to ultraviolet light. In “Genesis”, Mr Kac translated a sentence from the Bible into Morse Code, then into DNA, which he incorporated in bacteria. Viewers were encouraged to turn on an ultraviolet light in the gallery, thus inducing further genetic mutations in the bacteria, and changing the meaning of the Word. Joe Davis, an artist at the Massachusetts Institute of Technology, has even grander plans for his genetically modified rabbits. He wants to engineer them to express part of the Milky Way, translated into genetic code.

But as Martin Kemp, professor of art history at Oxford University, points out, much of the “genetic” art produced today is more a criticism than a celebration of modern biology. There is a ready forum in the arts for the debates that rage in the press over about what is and is not permissible. These, in turn, reflect popular anxieties about social control, conformity and commoditisation. In “Cultured”, for example, Bryan Crockett, an American artist, comments on the business of biotechnology with larger-than-life marble mice representing the seven deadly sins. Gluttony is a model of an animal modified to become obese, so that it can be used in the laboratory to study diabetes.

Architecture, too, is feeling the effects of genetics. Spiral staircases aside, few architects directly invoke the double helix or DNA outside a scientific setting, according to Neil Spiller, a specialist in architecture and digital theory at University College, London. That said, a number of architects are turning to the genetic underpinnings of evolution in their design methods.

Among them is Greg Lynn, an architect based in Los Angeles who is also a professor at the University of Applied Arts in Vienna. His “Embryological House” is a computer-based experiment intended to create architecture out of curved surfaces rather than sets of co-ordinates—blobs rather than blocks. Mr Lynn's design program allows him to specify the “seed” of a house, based on, say, its physical setting or his client's initial specifications. The computer generates changes, or “mutations”, that break the symmetry of this starting design into strange, almost organic forms. Whether the Embryological House will mature from a gleam in Mr Lynn's eye to a home on the range remains to be seen. In the meantime, though, he has used the same approach to create “evolved” tea and coffee pots for Alessi, an Italian household-goods manufacturer.

Fashion is proving rather more resistant to genetic inspiration

Fashion is proving rather more resistant to genetic inspiration. While the double helix has popped up in everything from T-shirts to perfume, it is used more as a visual gimmick than a design principle. One exception is the work of Helen Storey, a London artist who collaborated with her sister, Kate Storey, an embryologist at the University of Dundee, in Scotland, to create “Primitive Streak”. This is a dress collection that represents the first 1,000 hours of human life. Almost half of the collection, now on display at King's College, London, reflects the different ways in which genes influence early embryonic development, using the weave of cloth and the cut of fabric to build the double helix into the design.

While artists are increasingly influenced by genetics, few biologists, so far, have admitted to finding inspiration in artistic representations of their world. “Most think we're messing around with dresses, which has nothing to do with the seriousness of science,” says Helen Storey. One exception is John McLachlan, a biologist at Peninsula Medical School near Plymouth, England, who first contacted Helen Storey to use pictures of Primitive Streak to teach his students about embryology. Their subsequent collaboration on other artistic projects has led Dr McLachlan to revamp his notions of how sex determination occurs in humans. He outlines his ideas in a paper in the May issue of the *Journal of Theoretical Biology*, co-written by Helen Storey. While art and genetics may not pair with perfect complementarity, it is surely a sign of stronger bonds forming when artists participate in peer-reviewed science.

Sound science

As the double helix weaves its way into the visual arts, DNA is also finding a voice in music. A few biologists, composers and computer scientists are working with DNA, not just as inspiration but as raw material for “the sound of the 21st century”, according to Sophie Dauvois, a multimedia designer based in London.

The challenge lies in finding a meaningful way of converting a string of nucleotide bases into pitches, rhythms and so on

Ms Dauvois is part of Sonic Gene, an ambitious project started in 2001 to celebrate the completion of the Human Genome Project by translating the entire DNA sequence into music. The challenge lies in finding a meaningful way of converting a string of nucleotide bases into pitches, rhythms and so on. To do this, Ms Dauvois is working with Joseph Insana, a computer specialist at the European Bioinformatics Institute in Cambridge, England. Dr Insana has created a computer program to turn nucleotides into musical pitches, allowing him to use the exquisite acuity of human hearing to detect different sounds, and hence different nucleotides in various DNA sequences played back as sound.

While four pitches (one for each nucleotide) may be enough for DNA analysis, they make for boring music. So the pair have linked up with Tim Gane, a member of the English pop band Stereolab, to help turn the data into something musicians can work with. One way they are trying to spice up the sound is to use the process by which DNA is transcribed into protein as a way of adding rhythm to the music. Once the collaborators have worked out how to convert all this genetic information into a musically useful digital form, called MIDI files, they plan to make it available over the internet, so that musicians around the world can create their own versions of the human genome, from classical to reggae. So far, the team has converted 20 genes into MIDI, though that is a mere bar in the symphony of perhaps 30,000 genes that make up the human genome.

While Sonic Gene pushes ahead, other composers are already making music. Todd Barton, of Ashland, Oregon, is trying to set the gene involved in Huntington's chorea to music, assigning pitches to its DNA sequence to create a score for a dance conceived by a woman whose husband died of the disease.

The Storey sisters' dress

Others allow more of the chemistry of DNA into their music. Susan Alexjander, a composer in Santa Cruz, California, uses the physical characteristics of the four different nucleotides as her musical palette. When DNA bases are exposed to infra-red light, their chemical bonds absorb different frequencies of the light. These can be measured, providing roughly 15 different readings per molecule. Ms Alexjander takes these 60-odd absorption readings and converts them into sonic frequencies using straightforward mathematics. She then uses these pitches on her synthesiser as banks of sound, assigning them different voices and instruments.

Mary Anne Clark, a professor of biology at Texas Wesleyan University, uses a similar method to enhance her understanding of her subject. She creates molecular music, better to appreciate patterns in the proteins that are encoded by particular genes. Along with John Dunn, a software designer, she has devised an algorithm which assigns pitches to the 20 different amino acids that are the molecular building blocks of proteins. Pitches are assigned according to how well particular amino acids mix with water.

In nature, the chains of amino acids that proteins are composed of fold up in ways that push water-loving amino acids to the outer surface and water-loathing ones to the inside. In her computer program, Dr Clark assigns these structures to different instruments, chooses a key, and lets the sequence run. The result is music with audible themes that highlight particular features of a protein.

Dr Clark uses her musical molecules to help students understand the complexities of protein structure, and appreciate the beauties of biology. But teaching aside, the mainstream musical appeal of DNA remains doubtful. Molecular melodies still lie somewhere in the uneasy borderland between the arts and science.

Commerce, however, is another matter. Wherever DNA goes, these days, money never seems to be far behind. For example, Algorithmic Arts, a company started by Mr Dunn, allows customers to download molecular music over the internet. One of its products is the sound of alcohol dehydrogenase, a liver protein involved in mopping up the after-effects of a night on the town. Another, more sinister tune is based on the genes of HIV, the virus which causes AIDS.

Although Ms Alexjander hates to hear molecular music described as “New Age”, its weird pitches and strange rhythms do sound like a natural complement to crystals and incense. So, not surprisingly, some have tried to cash in on the healing powers of DNA music, selling aural doses of *Ginkgo biloba* and *Echinacea* genes, to help listeners “strengthen mind-body connections”, according to one internet purveyor.

Others contemplate a more hard-nosed approach. Pim Stemmer, head of research at Avidia, a Californian biotechnology company, wonders if translating DNA sequences into music might be one way to get around the problems of gene patenting, as patent offices in both America and Europe use ever-tighter criteria for what constitutes a novel, inventive, useful, and therefore patentable, claim for a gene.

Dr Stemmer speculates that, if companies were to turn their DNA sequences into music, they might be able to copyright them instead. For a fee, such music files could then be swapped over the internet, with

users translating their downloads back into DNA sequences. Failure to pay the piper, as it were, would constitute copyright infringement, and so companies could still profit in some way from their genomic handiwork while allowing others to share it. Dr Stemmer has yet to test his idea and, as Napster has shown, enforcing musical copyright can be a tricky business. But if it were to work, then the double helix will have recombined once more to create a new form, in which the triple strands of DNA, art and commerce are ever more tightly intertwined.

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*"The Molecular Gaze: Art in the Genetic Age". By Suzanne Anker and Dorothy Nelkin. Cold Spring Harbor Laboratory Press. September 2003.

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Beethoven's ninth symphony

Notes that bind

Apr 24th 2003
From The Economist print edition

Few pieces of music are as stirring as the last movement of Beethoven's ninth symphony, as many politicians have discovered

DO YOU get a lump in your throat—as Hitler did—with the terrifying fanfare that opens the choral movement of Beethoven's ninth symphony? Do your eyes mist over at the first throaty choral outburst of: *Freude, schöner Götterfunken*? The wavy-haired composer's last symphonic work, in D minor, is a mass of paradoxes and contradictions. Its status as an icon of western classical music is unquestionable: in order that listeners could enjoy the entire work at one sitting, the 74-minute ninth symphony was used to set the standard capacity for a compact disc. Next month, when it is auctioned at Sotheby's, a copyist's manuscript of the work, replete with Beethoven's last scribbled revisions, is expected to fetch more than any manuscript of classical music has done before.

If the ninth symphony is the most powerful symbol of absolute music in the classical music canon, it is also the most politicised work of all time. An emblem of liberal internationalism, the theme of the “Ode to Joy”, Beethoven's choral setting of Schiller's poem in the symphony's finale, has also been appropriated by hardened nationalists. French revolutionaries adopted it; Hitler much admired its Teutonic triumphalism and had Wilhelm Furtwängler conduct the work at his birthday concerts in 1937 and 1942; Ian Smith made it Rhodesia's national anthem.

Beethoven's Ninth: A Political History
By Esteban Buch. Translated by Richard Miller

University of Chicago Press; 352 pages; $27.50 and £19.50

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But the tune has also been the song of freedom lovers and democrats. In 1956, over three decades before reunification, East and West Germany fielded a joint team of athletes to the Olympic games. Their anthem? Beethoven's “Ode to Joy”. When Leonard Bernstein conducted the ninth symphony at a Christmas Day concert to celebrate the fall of the Berlin Wall in 1989, he transformed the last movement into an “Ode to Freedom”, substituting the German “Freiheit” (freedom) for “Freude” (joy); for over 30 years, the tune has been the official anthem of the European Union.

What is it about Beethoven's last symphony that admits such wildly divergent interpretations and appropriations, and how did it manage to overcome its associations with Nazism to become the anthem

of pan-European democracy? These are questions that lie at the heart of Esteban Buch's timely book, published in France four years ago and now translated into English for the first time.

Mr Buch, a Brazilian-born historian and musicologist, attempts nothing less than a cultural history of the “Ode to Joy”. Instead of viewing the piece as the apotheosis of symphonic thinking—as so many of Beethoven's biographers and critics have done in the past—Mr Buch locates it in a tradition of popular, patriotic song-writing that has its roots in national anthems, like “God Save the Queen”, and such revolutionary tunes as the “Marseillaise”. This, he believes, lies behind Beethoven's decision to use voices in a symphony, previously a purely instrumental musical form.

Many empires and nation states believed that music could be made to galvanise populations into patriotic feeling, and they employed the foremost composers of the Enlightenment to ensure their success. When Joseph Haydn wrote the music that would become the anthem of the Austro-Hungarian empire (and, later, “Deutschland, über alles”) his brief was to compose a melody that would have the same effect on public consciousness as the British national anthem.

Beethoven was also an enthusiastic player in this game of national prestige and he tried to position himself as the most important composer in Austria, and in Europe. To celebrate the hegemony of European power at the 1814 Congress of Vienna, he composed a cantata, “Der Glorreiche Augenblick”, known in English as “The Glorious Moment”. This idealistic and fervently pro-monarchist piece, which culminates in a hymn to European ideals, was one of the models for the later structure of the ninth symphony's finale, written a decade later, and goes some way to explain why so many people think of “Ode to Joy” as the embodiment of democratic, republican freedoms.

Mr Buch's Beethoven is a different musician from the tortured genius of historical imagination, and his rethinking of the Beethoven myth has important implications for the ninth symphony. However, in focusing almost entirely on the “Ode to Joy” and its myriad appropriations, Mr Buch fails to explain the significance of the rest of the symphony. For all its importance, the theme is only one ingredient of the finale, itself only one of four movements. Mr Buch gives scant space to the debates surrounding the symphony's position as the most famous piece of concert-hall music ever composed—one of the book's failings along with its occasionally academic tone, even in Richard Miller's translation.

But these are more than compensated for by the richness of the central argument. Mr Buch convincingly demonstrates how the growth of Beethoven's posthumous reputation as the musical embodiment of genius and humanism is paralleled by the development of European identity, surviving—as Richard Wagner did not—its association with the Third Reich.

There may come a time when Beethoven no longer represents democratic ideals in quite this way, but in examining the symbiotic relationship between music and politics, Mr Buch offers a new view of the convoluted route by which the composer's music, and the ninth symphony in particular, came to form the soundtrack of the aspirations of the European dream.

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About sponsorship

Afghanistan

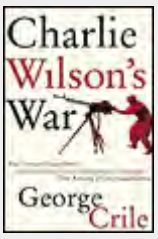
Horseman of the apocalypse

Apr 24th 2003
From The Economist print edition

WITHOUT Charlie Wilson, the Russians might still be in Afghanistan, their Hind attack helicopters invulnerable to the raggle-taggle *mujahideen* with their first world war Lee-Enfield rifles. This book is the story of how Mr Wilson, a hard-drinking, womanising congressman from Texas, used his position on the powerful House Appropriations Committee (and, in particular, its Defence and Foreign Operations subcommittees) to turn American foreign policy on its head, ramping up support for the Afghans from a few million dollars to, at peak, over a billion dollars a year in less than a decade.

The extraordinary thing is that he did it in the teeth of opposition from the CIA, which ran the covert operation there, and from America's State Department, which feared provoking the Russians into invading Pakistan, where the *mujahideen* were based. Even General Zia ul Haq, Pakistan's president, had to be persuaded to go along with a plan that could so easily have blown up in his face. The congressman—with, at various times, a belly-dancer, a former Miss World contender known as Sweetums, and a Texas socialite at his side—persuaded him, just as he persuaded his fellow congressmen to authorise far more than the CIA had ever dreamed of asking for. “Charlie did it”, was Zia's verdict on the victory of the *mujahideen*, though by the time the last Russian soldier left, in 1989, the general had been assassinated. He and Mr Wilson never rode, as they had promised each other they would, through Kabul's streets on white horses.

Charlie Wilson's War: The Extraordinary Story of the Largest Covert Operation in History—The Arming of the Mujahideen
By George Crile



Atlantic Monthly Press; 506 pages; $26. To be published in Britain as "My Enemy's Enemy" by Atlantic Books in June

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Amazon.co.uk

As far as it goes, this is a gripping read for students of the cold war, anyone who wants the low-down on how their tax dollars really get spent, Central Asia junkies or those who delight in cloaks, daggers and plausible deniability. What is sad about the book is that it doesn't go far enough. In presenting Charlie Wilson's war, it takes on board too much of Charlie Wilson's reasoning. So it never really asks, let alone attempts to answer, the really interesting question: was the war worth it?

There is a plausible counter-argument to Mr Wilson's. It is arguable, on the one side, that defeat in Afghanistan was, at most, simply another of many shoves administered to a communist system that was collapsing under the weight of its own contradictions. And by pumping billions of dollars worth of weapons into an already unstable region, while at the same time kindling the flame of militant Islam, the CIA and Mr Wilson surely incurred a large debit to weigh against whatever positive results might have come from their actions. The *Afghanis* are a group known to every security force in the world: not the natives of Afghanistan, but the young men who went there from every Islamic country to fight against the infidel Russians. These men returned home hardened by war, expert in the use of weapons, and infused by religious zeal. The most famous is Osama bin Laden, a Saudi who attached himself to Gulbuddin Hikmatyar, the Afghan warlord who received more of the American and Saudi largesse than any other, despite religious views that were extreme even by local standards.

And far from being made free by Mr Wilson and his war, Afghanistan descended into such brutish chaos that, seven years after the last Russian left, the Taliban were joyfully welcomed into Kabul. By failing to weigh up how the law of unintended consequences has operated in Afghanistan, George Crile has disappointed at least one reader. But by lifting up the stones in Washington and Langley, he more than makes up for it.

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About sponsorship

American medicine

Pump action

Apr 24th 2003
From The Economist print edition

AMERICANS pride themselves on their land of opportunity, where the poor can turn rich, the weak become powerful, and vice versa. Key to all this is a talent for transformation. Two new books look at the lengths to which Americans will go to change their shape and substance.

“Better Than Well” examines the fascination with “enhancement technologies”, such as cosmetic surgery and “lifestyle” drugs, and public debate about the morality of artificial aids. Why are Americans so eager to chop and change, yet so troubled by the prospect? Carl Elliott, a bioethicist, argues that they seek out these procedures and devices in a search for self-fulfilment, not to change themselves, but to find themselves. For people who see their lives as projects to be planned, rather than accidental events to be experienced, self-fulfilment has replaced historical measures of lives well-lived, such as respecting one's ancestors or pleasing the gods; the fear of missing out on all that life could offer has given the quest for self-enhancement a powerful moral dimension.

This argument is familiar enough when it comes to discussions of Prozac, cosmetics or breast implants. The novelty of “Better Than Well” is that it makes the same case for such unlikely procedures as accent reduction, transsexual surgery and apotemnophilia (a longing for amputation); one man's mutilation, it seems, is another's self-discovery.

Compared with the scenic diversions of Mr Elliott's work, “Ultimate Fitness” is a straight run. Gina Kolata looks at the science and history of America's love affair with exercise. To foreign eyes, Americans seem to come in two speeds: the super-fit who rock, and the ultra-fat who roll. Of the former, almost 33m belong to health clubs, spawning a multi-billion-dollar industry of sports shoes, fitness foods, exercise videos, heart monitors and personal trainers.

It was not always thus. In 1968, when Kenneth Cooper, an American doctor, introduced the concept of aerobics, jogging was considered an aberration and weight-lifting better left to the beaches of southern California. Strenuous exercise was thought to kill by exhausting healthy hearts, and competitive sports were out of step with flower power. Yet 60 years earlier, men and women flocked to gyms, trying to turn themselves into the sort of muscular Americans their president, Theodore Roosevelt, extolled.

Ms Kolata is an example of how things have come full circle. “Exercise is my obsession”, she freely admits. Her fitness regimen, described at length in the book, is frankly daunting: hours each week spent lifting weights and in “spinning” classes, on a specially-designed stationary bicycle, with music blaring, fans roaring and sweat dripping on to the floor. She does it, she says, to keep down her weight and for “an almost indescribable state of sheer exhilaration”. Those readers (including this reviewer) who have risked grievous bodily harm with free weights, and felt the life being hoovered out of them on a stair-climber, will find the author's lyrical accounts of spinning both baffling and boring—and as hard to understand as the desires of Mr Elliott's apotemnophiles.

That said, Ms Kolata's clear account of the science, or lack thereof, in some of the most cherished exercise myths, from the “fat-burning zone” to “runner's high”, is readily appreciated. Of particular interest is the book's discussion of the genetic determinants of fitness and how, as a consequence,

Better Than Well: American Medicine Meets the American Dream
By Carl Elliott and an introduction by Peter D. Kramer

Norton; 320 pages; $26.95 and £19.95

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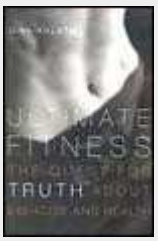
Ultimate Fitness: The Quest for Truth about Health and Exercise
By Gina Kolata



Farrar, Straus & Giroux; 288 pages; $24.00

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roughly 10% of those tethered to treadmills will never be buffed and toned. Fortunately, experts seem to agree that moderate exercise—say a brisk walk of 20-30 minutes a day—will keep you healthy, if not body beautiful. For those who see the gym as more of a chore than a church, this is welcome news indeed.

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James Watson

Determined from birth

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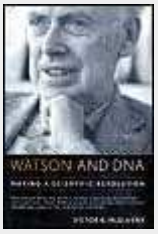
THERE are, so the saying goes, no second acts in American lives. But rules were made to be broken and as Victor McElheny shows, James Dewey Watson broke this one successfully. Jim Watson was, with Francis Crick, the discoverer of the structure of DNA. April 25th marks the 50th anniversary of the announcement of that discovery. That is a twice-told tale—one of the chief tale tellers being Mr Watson himself, in his book “The Double Helix” (first published in 1968 and never out of print). Mr McElheny reviews the tale yet again, at necessary but not enormous length. He then goes on to describe the second, and subsequent, acts of Mr Watson's life.

Watson and DNA: Making a Scientific Revolution
By Victor K. McElheny



Perseus Publishing; 363 pages; $27.50.
John Wiley; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Jim Watson built his career on the discovery he made at the age of 25. It is doubtful he would have achieved acclaim without it. But he rode the wave well, and used it to play an important part in American scientific life. As Mr McElheny puts it, “between the ages of 25 and 28 he was turning from a player in a scientific orchestra into a conductor.” Most scientists who end up as administrators have to be dragged kicking and screaming into the role. Not Mr Watson. He seems to have embraced the transition to administrator enthusiastically. Perhaps it was a recognition that he would never trump his youthful discovery. And perhaps Mr Watson's observation that scientific institutions are best run by scientists, not “professional” administrators, also had something to do with it.

The Watson Mr McElheny describes is a complex character. On the one hand he seems an egomaniac, routinely shredding people less robust than himself in seminars, and unwilling to smooth feathers or speak the soft word that turneth away wrath. On the other he goes out of his way, when running his research group at Harvard, and later when he is head of the Cold Spring Harbor laboratory, to make sure that the young scientists who do the work receive full credit for it.

Many people in such positions routinely add their names to the publications of their underlings. Not Mr Watson. Nor is the geeky science-before-people image quite as artless as it looks. When running Cold Spring Harbor, he was a successful groomer of donors, to the point of untying his shoelaces and mussing up his hair before one meeting. Eccentricity clearly has to be worked at.

That Mr Watson's last big contribution to scientific administration was as the first head of the American arm of the Human Genome Project has a poetic symmetry to it. He has, as he wished, lived to see the sequence completed. Warts and all, he has been an asset to science. Mr McElheny manages the task—always difficult when your subject is still alive—of writing a biography that emphasises the achievements, while not shying from the warts.

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New fiction

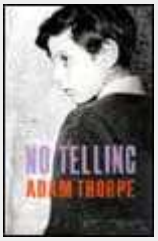
Innocent in Paris

Apr 24th 2003
From The Economist print edition

ADAM THORPE is best known for his first novel, “Ulverton” (1992), in which he renders, with uncanny authenticity, the voices of a dozen villagers, rough and smooth, across four centuries of English rural life. Here, in this latest novel, history is no longer garrulous. The narrator is Gilles Gobain, a dreamy adolescent from a bleak suburb of Paris in the months before May 1968—his first communion. His stepfather sells industrial vacuum cleaners. He can only tell us what he knows.

History for him is like family—intimate, half understood, repetitive: 1870, 1914, 1939, the Algerian war. History is comic- book death agonies with his friend in the derelict grounds of the Gestapo HQ; it is suddenly raised voices at a family gathering; it's a Jewish name stitched into his sister's smart suit, picked up second hand; it's his stepfather's wordless gesture about Algerian atrocities—a swipe across the genitals and into the mouth.

No Telling
By Adam Thorpe



Jonathan Cape; 516 pages; £16.99

Buy it at
Amazon.co.uk

The present is similarly full of unmentionables: his sister's illegitimate baby, which their devoutly Catholic mother tells him is hers; the sister's anarchist politics and then her madness; his stepfather's insurance scam and infidelities. Everyone tells him not to tell, to keep it to himself. Gilles's gradual understanding of “it” is the core of the book, the price of his innocence. The reader, of course, can see the whole rotten picture, plum ripe for May 1968, especially in the brilliantly realised figure of Alain, the stepfather: a blokeish racist *petit bourgeois*. But Mr Thorpe's skill is to keep us at Gilles's level, somewhere between Meccano and his first kiss.

It is beautifully done. Mr Thorpe perfectly captures the inconsequential nature of adolescence—heart-thumping intensity, casualness, pretence and honesty. Poetry too. At one point Gilles is overwhelmed by some crocuses and feels that together they are eternal and the same. Then he corrects himself and makes a plain landing: “No we weren't really the same, but very close—more like a best friend.” In the end, it is that plainness which makes the climax of the book such powerful reading—the Paris riots into which he and his mother accidentally stumble.

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New York theatre

Broadway is bigger than ever

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New York theatre today is far more varied than London, and when was the last time you heard that?

TIME was, and it wasn't that long ago, when you knew what you needed for a Broadway hit: one snob hit play per season—usually from England (Sir Tom Stoppard's “The Real Thing”, say, or Sir David Hare's “Skylight”)—and a musical, again originating more often than not in London.

Just try to keep up

But as if to chime with a new century, Broadway in the past few years seems quietly to have broken its own rules. The result is a truly eclectic theatrical landscape currently borrowing from street poetry one minute (Russell Simmons's “Def Poetry Jam”), contemporary dance (the Twyla Tharp two-act ballet, “Movin' Out”) the next. Indeed, having seen its way through September 11th, a short-lived musicians' strike, and the stay-at-home effects of the Iraqi war, it is particularly surprising. While London marks time with various fillers—just how many ABBA sing-alongs can one city take?—New York gives every evidence of reaching gratifyingly far and wide in the search for this season's surprise success.

It was in 1990, at the Sydney Opera House, that an Australian film director, Baz Luhrmann, first put on “La Bohème”, the tremulously melodic opera that many theatregoers know best as the inspiration for the long-running Broadway musical, “Rent”. So there is a certain logic in bringing “La Bohème” itself to Broadway, this time in an $8m production that updates the material to 1950s Paris—and, amid a climate that thrives on big names, that dares to make the staging the star.

Since Mr Luhrmann first tackled the opera, he has entered the select circle of celebrity directors on the basis of only three films, including “Moulin Rouge”. And his “La Bohème”—designed by Mrs Luhrmann, Catherine Martin, a double Oscar-winner for “Moulin Rouge”—is avowedly the work of an *auteur*. Both the extravagant detail of its *mise-en-scène* and the open appeal to younger audiences remind us that this is a man, after all, who gave us Shakespeare with switchblades (in his 1996 film of “Romeo and Juliet”).

“La Bohème” is the critics' latest darling in a New York theatre season that has not lacked for them. What remains to be seen is just how many young people will want to shell out $100—the prevailing Broadway norm—to hear two hours of Italian, even if it has got (mostly) rave reviews.

Few expected “Movin' Out” to do anything but flop, following poor reviews for the dance show's pre-Broadway try-out in Chicago last July. Undaunted, Ms Tharp and her 27-strong cast went back to work, determined to make an unclassifiable whole out of a wordless show that sizzles to the music of 24 songs by Billy Joel—while sounding its own requiem for a generation that came to grief during Vietnam.

As might be expected, the ensemble draws more from ballet and contemporary dance than it does from

Broadway. Several different casts are required to keep up the standard across eight shows a week, but the result is a particular thrill for dance fiends, who have rarely seen such furious energy expended on a Broadway stage.

“Movin' Out” and “La Bohème” both stretch the parameters of Broadway, while selling themselves via the work and no one single name. Does that mean the bona fide Broadway star is dead? Unlikely, in a season that has just produced, via the musical “Nine”, the New York stage debut of Antonio Banderas, inheriting the role played on screen by Marcello Mastroianni in the show's source, Federico Fellini's film “8½”. Or the return to Broadway of two-time Tony award-winner Bernadette Peters, this time cast against type as the monstrous Mama Rose in a new production of “Gypsy” directed by an Oscar-winning Englishman, Sam Mendes. Nor can one overlook the pairing of Brian Dennehy and Vanessa Redgrave in arguably the greatest and most mournful of American plays, “Long Day's Journey Into Night”.

If these productions can amplify the springtime buzz needed to sustain the pace on Broadway, the New York theatre will be happy for rather more than what Mary Tyrone calls in her final words in Eugene O'Neill's epic—just “a time”.

“Def Poetry Jam” is at the Longacre Theatre; “Movin' Out” at the Richard Rodgers Theatre; “La Bohème” at the Broadway Theatre and “Nine” at the Eugene O'Neill Theatre. “Gypsy” opens at the Shubert Theatre on May 1st and “Long Day's Journey Into Night” at the Plymouth Theatre on May 6th.

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Leonard Tose

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Leonard Tose, a big spender, died on April 15th, aged 88

AP

AT A hearing by the United States Congress into gambling, the most compelling witness by far was Leonard Tose. He reckoned that he had lost about $40m through gambling, or it might have been as much as $50m. He couldn't be sure. The money had seeped away gradually though consistently, sometimes no more than $10,000 during a frugal night at a casino, sometimes as much as $1m. But he had vast winnings too. He recalled times when everything went his way. The dollars rolled in obediently. He felt he could not lose. Such moments kept Mr Tose going when fortune seemed to have deserted him. In one bleak run of ill-fortune he lost 72 nights in a row. A lesser man would have given up. A lesser man would probably have managed to hold on to at least some of his money.

There was nothing stupid about Leonard Tose. In many ways his was the classic American success story. His parents were immigrants from Russia who had settled in Philadelphia. Mr Tose told stories of his father selling goods from a pack on his back and saving up to buy a truck. From modest beginnings the son built up a business of 700 trucks whose logo became familiar throughout the United States.

The politicians who listened in fascination to Mr Tose's account of how to lose money quickly were trying to understand the nature of gambling, and whether it should, or could, be controlled. Mr Tose was asked if he had any advice for Congress. “Don't drink when you gamble,” he said. It sounded obvious, but it drew attention to the practice of some casinos that provide big-spenders with an unlimited supply of drink.

In various countries in the rich world similar inquiries are going on. In America and other liberal societies, a strongly-held view is that if you want to gamble, it is no business of the government. However, the consensus is that gambling is increasing, helped on by the internet, but little can be done about it except to provide counselling for those unkindly called “pathological” gamblers. The good news for governments is that gambling, though routinely deplored, is easily taxable, like its sinful sisters drinking and smoking. State lotteries are promoted as a good thing. Britain's provides much of the money to nourish its much-praised culture.

His hobby

One of the lures of gambling is its simplicity. The apparatus of a casino, the roulette wheels, the slot machines, require little technological skill. Mr Tose favoured blackjack, similar to pontoon, a children's game. The player has to be able to count up to 21 but it is otherwise undemanding. There are books that claim that a player with a prodigious memory for the sequence of cards can gain an advantage over the casino. But whether playing in Las Vegas or Atlantic City, Mr Tose never bothered with such affectations. What he liked was to play a number of games at once, often losing them all.

In a revealing moment he once said, “My hobby is spending money.” Gambling was not all of his life, and perhaps not the most important part of it. After Mr Tose had made his pile, he gave generously to medical charities. He willingly subsidised local public services that were short of cash. He provided playing fields for schools. He bought the Philadelphia police their bulletproof jackets. When the Philadelphia Eagles, a football team, was struggling to survive, he bought it for $16m. Sportsmen should stick together, Mr Tose said: as a student at Indiana's Notre Dame University, he had played for its noted football team.

He was in the tradition of American industrialists who, having made a fortune, seek to give it away. The collections of European paintings and sculpture of Henry Frick, Andrew Mellon and other pioneering tycoons, bought when they became rich, were the foundations of America's great national art galleries in New York and Washington. Leon Levy, an American financier who died on April 6th, aged 77, was a similar benefactor. He gave away $140m, including $20m to the Metropolitan Museum of Art.

If he had a philosophy it was to use his money to provide entertainment for the public

Mr Tose did not see himself as that sort of philanthropist, assembling alms for oblivion. If he had a philosophy it was to use his money to provide entertainment for the public. He liked the company of reporters, a habit he formed in the second world war when he edited an army newspaper. He became a regular read in American newspapers. One of the serial stories was about his five marriages and their consequences. One wife asked a court to declare him incompetent to handle money. She lost. He was sued by a casino for a debt of $1.23m, and claimed that it had made him drunk. He lost.

In the end he lost pretty near everything: his football team, the control of his trucking business, his Rolls-Royce, a model that matched that of his fourth wife. On his 81st birthday he was evicted from his colonial-style home, and he moved into a modest hotel, where the rent was paid for by some of his remaining friends. Last year, at the age of 87, he declined to be sorry for himself. He thought he had done well to reach a great age. He occasionally took a holiday, he said, but nothing flamboyant. He had a car, albeit one eight years old. And he still had his spirit.

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Overview

Apr 24th 2003
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American consumer-price inflation was 3.0% in the year to March, up from 1.5% in the previous 12 months. The Philadelphia Fed's business-activity index fell slightly in April, leading to worries that manufacturing output is continuing to contract. Claims for jobless benefits rose higher than forecast, showing no let-up in the recent labour-market weakness.

Housing starts in America rose by more than expected in March, although much of the rise was thanks to bad weather in February. Average figures for the two months, however, show that America's robust housing market is starting to cool.

The Centre for Economic Policy Research's EuroCOIN index, a real-time economic-growth indicator, is showing faster economic growth for the **euro area**: the index rose from 0.378 in February to 0.478 in March. Industrial production rose by 0.2% in February, a decrease on January's 1.3%. In the 12 months to February, industrial production grew by 1.8%.

Wages in **Germany** rose by a nominal 2.6% in the year to March. In real terms, wages gained only 1.3%.

The Netherlands saw a sharp rise in joblessness, thanks to an economy performing even worse than many of its EU neighbours. Unemployment rose to 4.9% for the three months from January to March, up from 3.7% for the same period a year ago.

Consumer prices in **Canada** rose by 4.3% in the year to March, up from 1.8% in the previous 12 months. Canada's central bank has raised interest rates five times over the past year in a bid to stem rising prices.

Inflation in **Australia** is also rising, thanks to the country's booming economy. In the first quarter, the 12-month inflation rate rose to 3.4%, up from 2.9% a year ago. Producer prices rose by 3.0% in the year to the first quarter, up from 0.5% a year ago.

Around 200,000 job-seeking **Swedes** are out of work. Unemployment rose to 4.6% in March, up from 3.8% a year ago.

Growth in **Japanese** industrial production in the 12 months to February was revised up to 4.8% from an earlier estimate of 4.2%.

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About sponsorship

Output, demand and jobs

Apr 24th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.0	Q4	+ 1.6	+ 3.0	+ 3.6	+ 2.3	Q4	+ 5.4	Q4	6.2	Mar	6.4
Austria	+ 1.3	Q4	– 0.5	+ 1.0	+ 1.9	– 1.5	Dec	+ 0.9	Dec	4.3	Mar	4.0
Belgium	+ 1.6	Q4	+ 0.8	+ 1.2	+ 2.2	– 1.6	Feb	+ 3.5	Jan	11.7	Mar†	10.8
Britain	+ 2.2	Q4	+ 1.7	+ 1.9	+ 2.5	+ 0.1	Feb	+ 3.2	Feb	5.1	Feb††	5.1
Canada	+ 3.9	Q4	+ 1.6	+ 2.8	+ 3.3	+ 4.2	Jan	– 0.2	Jan	7.3	Mar	7.7
Denmark	+ 0.9	Q4	– 0.1	+ 1.5	+ 2.3	+ 3.3	Feb	+ 5.8	Feb	5.7	Feb	5.0
France	+ 1.7	Q4	+ 0.9	+ 1.2	+ 2.3	+ 2.0	Feb	– 0.8	Feb	9.2	Feb	8.8
Germany	+ 0.5	Q4	– 0.1	+ 0.4	+ 1.6	+ 0.2	Feb	+ 0.4	Feb	10.6	Mar§	9.6
Italy	+ 1.0	Q4	+ 1.7	+ 1.0	+ 2.0	– 1.2	Feb	+ 2.4	Dec‡	9.0	Jan	9.0
Japan	+ 2.8	Q4	+ 2.2	+ 0.7	+ 0.8	+ 4.8	Feb	– 0.2	Feb	5.2	Feb	5.3
Netherlands	+ 0.4	Q4	– 0.4	+ 0.6	+ 1.9	– 1.6	Feb	– 2.5	Dec	4.9	Mar**	3.7
Spain	+ 2.1	Q4	+ 1.4	+ 2.1	+ 2.7	+ 2.5	Dec	+ 2.3	Feb	11.9	Feb	11.1
Sweden	+ 1.3	Q4	+ 1.2	+ 1.7	+ 2.4	– 1.8	Feb	+ 4.2	Feb	4.6	Mar†	3.8
Switzerland	+ 0.8	Q4	+ 1.4	+ 0.8	+ 1.8	– 2.1	Q4	– 1.3	Jan	3.9	Mar†	2.6
United States	+ 2.9	Q4	+ 1.4	+ 2.2	+ 3.3	+ 0.4	Mar	+ 2.1	Feb	5.8	Mar	5.7
Euro area	+ 1.3	Q4	+ 0.7	+ 1.0	+ 2.1	+ 1.8	Feb	+ 2.7	Jan	8.7	Feb	8.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q4	+ 2.8	na	na	+ 3.6	Feb	+ 2.0	Nov	9.9	Mar†	9.5
Greece	+ 3.5	Q4	na	na	na	+ 0.7	Feb	na		na		na
Iceland	– 3.0	Q4	na	na	na	– 0.3	2002	na		4.0	Mar†	2.7
Ireland	+ 6.9	Q3	na	na	na	+14.3	Feb	– 2.0	Feb	4.5	Mar†	4.4
Luxembourg	+ 1.0	2001	na	na	na	+ 3.1	Jan	– 6.1	Oct	3.8	Feb†	2.9
New Zealand	+ 4.2	Q4	+ 2.0	na	na	+ 5.9	Q4	+ 7.3	Q4	4.9	Q4	5.4
Norway	– 0.1	Q4	+ 0.9	na	na	– 6.0	Feb	+ 3.1	Feb	3.7	Q4	3.3
Portugal	– 1.3	Q4	– 3.1	na	na	+ 3.4	Feb	+ 2.3	Feb	6.2	Q4†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 3.1% in Mar. §EU harmonised rate 8.9% in March. **Jan-Mar, new series.

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Prices and wages

Apr 24th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 3.4	Q1	+ 2.9	+ 2.7	+ 2.5	+ 3.0	Q1	+ 0.5	+ 3.9	Q4	+ 4.9
Austria	+ 1.8	Mar	+ 1.9	+ 1.7	+ 1.3	+ 2.0	Mar	– 0.3	+ 2.2	Mar	+ 2.4
Belgium	+ 1.8	Mar	+ 2.7	+ 1.5	+ 1.4	+ 0.3	Feb	– 0.6	+ 2.4	Q1	+ 3.1
Britain	+ 3.1	Mar	+ 1.3	+ 2.8	+ 2.5	+ 1.9	Mar	– 0.1	+ 3.0	Feb	+ 2.6
Canada	+ 4.3	Mar	+ 1.8	+ 3.0	+ 2.2	+ 2.3	Feb	– 1.1	+ 1.8	Jan	+ 3.7
Denmark	+ 2.9	Mar	+ 2.6	+ 2.3	+ 2.0	+ 0.7	Mar	+ 0.8	+ 3.9	Q4	+ 4.1
France	+ 2.6	Mar	+ 2.1	+ 1.7	+ 1.4	+ 2.8	Feb	– 1.4	+ 3.5	Q4	+ 3.9
Germany	+ 1.2	Mar	+ 2.0	+ 1.1	+ 1.0	+ 1.3	Mar	nil	+ 2.6	Feb	+ 2.5
Italy	+ 2.7	Mar	+ 2.5	+ 2.3	+ 1.9	+ 2.8	Feb	– 1.1	+ 2.1	Dec	+ 2.8
Japan	– 0.2	Feb	– 1.6	– 0.6	– 0.5	– 0.7	Mar	– 2.5	+ 2.1	Feb	– 0.6
Netherlands	+ 2.7	Mar	+ 3.7	+ 2.6	+ 2.1	+ 5.1	Feb	– 2.6	+ 3.0	Feb	+ 4.4
Spain	+ 3.7	Mar	+ 3.2	+ 3.0	+ 2.6	+ 2.9	Feb	– 0.2	+ 3.9	Q4	+ 3.7
Sweden	+ 3.1	Mar	+ 2.9	+ 2.4	+ 2.0	+ 0.6	Feb	– 0.4	+ 4.0	Dec	+ 3.2
Switzerland	+ 1.3	Mar	+ 0.6	+ 0.7	+ 0.9	+ 0.3	Mar	– 1.3	+ 2.5	2001	+ 1.3
United States	+ 3.0	Mar	+ 1.5	+ 2.3	+ 1.8	+ 4.2	Mar	– 1.6	+ 3.1	Mar	+ 3.3
Euro area	+ 2.4	Mar	+ 2.5	+ 1.8	+ 1.5	+ 2.7	Feb	– 1.1	+ 3.4	Q4	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Mar	+ 1.8	na	na	+ 0.8	Mar	– 0.8	+ 3.3	Q4	+ 4.5
Greece	+ 4.1	Mar	+ 4.0	na	na	+ 2.7	Feb	+ 3.5	na		na
Iceland	+ 2.3	Apr	+ 7.5	na	na	+ 3.3	Apr	+ 8.7	+ 5.7	Mar	+ 8.7
Ireland	+ 4.9	Mar	+ 4.8	na	na	– 5.3	Jan	+ 1.7	+ 6.8	Q4	+ 7.8
Luxembourg	+ 2.7	Mar	+ 2.1	na	na	+ 2.3	Feb	– 2.4	– 1.4	Jan	+ 1.9
New Zealand	+ 2.5	Q1	+ 2.6	na	na	– 0.9	Q4	+ 1.8	+ 2.1	Q4	+ 2.2
Norway	+ 3.7	Mar	+ 1.0	na	na	+ 5.1	Mar	– 4.5	+ 5.2	Q4	+ 4.4
Portugal	+ 3.9	Mar	+ 3.2	na	na	+ 2.1	Mar	– 0.4	+ 0.4	Jan	+ 1.3

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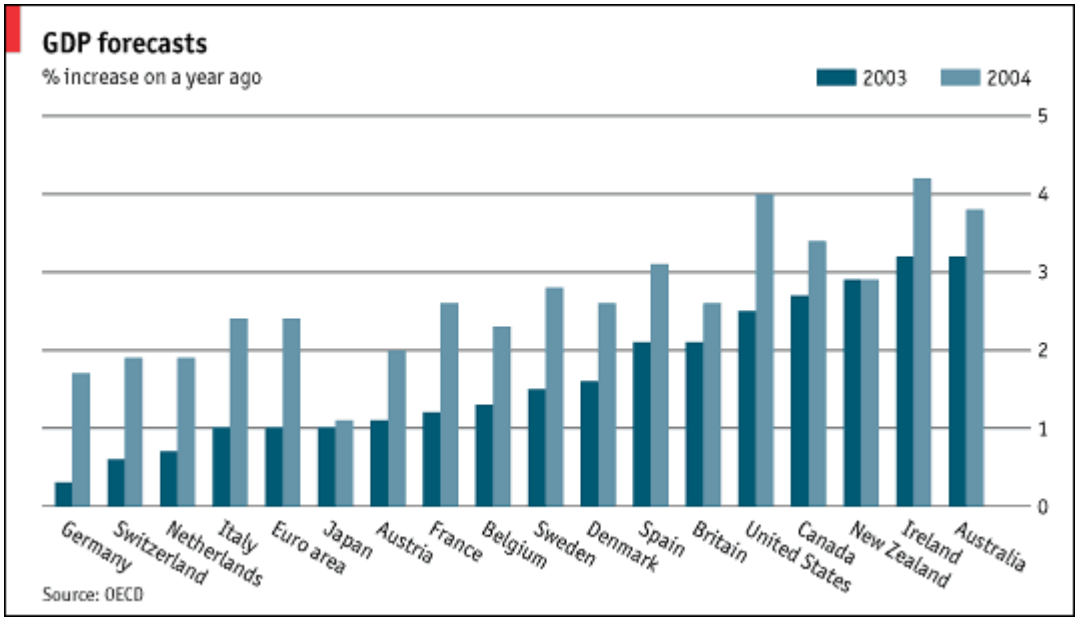
GDP forecasts

Apr 24th 2003
From The Economist print edition



The OECD reckons that any global economic recovery will come slowly, held back by geopolitical risks and a continuing overhang of capital investment. The euro-area economy can expect anaemic growth of only 1.0% this year, versus a predicted 2.5% growth rate for America. In 2004, America and Ireland are likely to outpace Australia, whose economy has recently been one of the world's fastest growing.

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Money and interest rates

Apr 24th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 23rd 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	−11.8	+10.3	Feb	4.80	4.62	4.68	5.38	6.33	6.29
Britain	+ 6.5	+ 7.3	Mar	3.59	4.13	3.47	4.42	5.23	6.06
Canada	+ 7.0	+ 4.9	Mar	3.24	2.40	3.75	5.11	5.66	6.94
Denmark	+ 8.7	+10.4	Feb	2.69	3.70	2.75	4.35	5.31	5.52
Japan	+14.4	+ 1.8	Mar	0.02	0.03	0.05	0.63	1.43	0.75
Sweden	+ 0.4	+ 5.2	Jan	3.43	4.25	3.61	4.64	5.52	4.12
Switzerland	+24.0	+10.0	Mar	0.31	1.57	0.07	2.51	3.42	3.60
United States	+ 3.9	+ 6.2	Mar	1.22	1.76	1.65	3.99	5.10	5.92
Euro area†	+10.3	+ 8.1	Feb	2.55	3.39	2.53	4.11	5.08	4.38

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.95%, Japan No.248 0.64%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 24th 2003
From The Economist print edition

1995=100

	Apr 15th	Apr 22nd*	% change on one month	% change on one year
Dollar index				
All items	76.0	76.3	+ 0.7	+ 9.4
Food	77.5	78.0	+ 2.1	+11.5
Industrials				
All	73.9	74.0	– 1.2	+ 6.5
Nfa†	78.9	79.0	+ 0.9	+15.2
Metals	69.7	69.8	– 3.2	– 0.7
Sterling index				
All items	76.3	76.3	+ 0.4	+ 0.5
Euro index				
All items	92.6	91.6	– 1.8	–11.2
Yen index				
All items	97.2	97.3	+ 0.6	+ 0.9
Gold				
$ per oz	323.20	334.75	+ 1.5	+10.6
West Texas Intermediate				
$ per barrel	29.36	29.91	+ 7.0	+14.2

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 24th 2003
From The Economist print edition

Market indices

	Apr 23rd	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	2,964.0	3,049.6	2,673.3	+ 0.7	-13.8	- 0.4	+ 9.3
Austria (ATX)	1,196.5	1,211.3	1,120.2	+ 1.9	-31.1	+ 4.0	+ 8.5
Belgium (Bel 20)	1,917.6	2,074.1	1,426.6	+ 1.7	-47.9	- 5.3	- 1.2
Britain (FTSE 100)	3,966.5	4,009.5	3,287.0	+ 2.9	-42.8	+ 0.7	- 1.1
Canada (Toronto Composite)	6,616.9	6,837.3	6,228.6	+ 2.1	-41.9	nil	+ 8.7
Denmark (KBX)	174.0	174.0	145.0	+ 0.6	-42.3	+ 4.6	+ 9.2
France (SBF 250)	1,983.8	2,144.8	1,630.1	+ 2.3	-54.8	- 3.4	+ 0.8
(CAC 40)	2,962.7	3,210.3	2,403.0	+ 2.3	-57.2	- 3.3	+ 0.8
Germany (DAX)	2,974.4	3,157.3	2,203.0	+ 5.3	-63.1	+ 2.8	+ 7.2
Italy (BCI)	1,112.5	1,142.4	959.4	+ 1.5	-49.0	+ 1.9	+ 6.2
Japan (Nikkei 225)	7,793.4	8,790.9	7,752.1	- 1.1	-80.0	- 9.2	-10.5
(Topix)	789.4	865.4	770.6	nil	-72.6	- 6.4	- 7.8
Netherlands (AEX)	291.7	337.3	218.4	+ 1.5	-58.4	- 9.6	- 5.7
Spain (Madrid SE)	682.8	683.8	576.8	+ 1.2	-40.4	+ 7.7	+12.3
Sweden (Affarsvarlden Gen)	146.0	153.4	127.8	+ 1.8	-63.5	+ 0.5	+ 5.2
Switzerland (Swiss Market)	4,586.9	4,965.3	3,675.4	+ 0.7	-45.5	- 0.9	- 0.6
United States (DJIA)	8,515.7	8,842.6	7,524.1	+ 3.1	-27.4	+ 2.1	+ 2.1
(S&P 500)	919.0	931.7	800.7	+ 4.4	-39.8	+ 4.5	+ 4.5
(NASDAQ Comp)	1,466.2	1,466.2	1,271.5	+ 5.1	-71.0	+ 9.8	+ 9.8
Europe (FTSE Eurotop 300)*	832.7	890.8	682.7	+ 2.6	-51.2	- 2.8	+ 1.3
Euro area (FTSE Ebloc 100)*	709.7	757.2	565.7	+ 3.0	-54.2	- 1.2	+ 3.0
World (MSCI)†	810.8	830.7	710.8	+ 3.6	-44.0	na	+ 2.3
World bond market (Citigroup)‡	539.2	551.7	518.6	+ 0.5	- 2.3	na	+ 2.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 24th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2003	Current account The Economist poll % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Apr 23rd	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Apr 23rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 6.7 Feb	− 17.7 Q4	− 4.7	− 3.9	79.3	76.6	1.62	1.85	2.56	1.77	1.34	0.2
Austria	+ 0.6 Jan	+ 0.9 Jan	− 0.7	− 0.9	101.7§	100.3	0.91	1.12	1.45	–	0.76	-1.3
Belgium	+ 16.4 Jan	+ 11.8 Dec	+ 4.9	+ 4.9	101.4§	99.0	0.91	1.12	1.45	–	0.76	nil
Britain	− 55.5 Feb	− 13.1 Q4	− 1.8	− 1.6	99.7	107.0	0.63	0.69	–	0.69	0.52	-1.9
Canada	+ 35.0 Feb	+ 11.0 Q4	+ 1.6	+ 1.7	80.9	76.9	1.45	1.57	2.30	1.59	1.21	1.1
Denmark	+ 8.6 Feb	+ 5.6 Feb	+ 2.0	+ 1.9	105.6	102.0	6.78	8.33	10.7	7.42	5.63	1.6
France	+ 8.9 Feb	+ 28.3 Feb	+ 1.7	+ 1.6	104.5§	101.6	0.91	1.12	1.45	–	0.76	-3.6
Germany	+122.8 Feb	+ 46.9 Feb	+ 1.9	+ 1.8	101.8§	98.5	0.91	1.12	1.45	–	0.76	-3.7
Italy	+ 7.5 Feb	− 8.8 Jan	− 0.4	− 0.3	74.5§	72.5	0.91	1.12	1.45	–	0.76	-2.4
Japan	+ 95.9 Feb	+115.0 Feb	+ 2.6	+ 2.9	128.8	129.8	120	130	190	132	–	-7.7
Netherlands	+ 29.5 Feb	+ 9.1 Q4	+ 3.2	+ 3.2	100.7§	97.9	0.91	1.12	1.45	–	0.76	-1.6
Spain	− 40.8 Jan	− 17.4 Jan	− 2.2	− 2.1	76.0§	74.2	0.91	1.12	1.45	–	0.76	-0.4
Sweden	+ 15.0 Feb	+ 9.9 Dec	+ 3.6	+ 3.5	80.2	75.8	8.33	10.3	13.2	9.11	6.92	0.7
Switzerland	+ 4.8 Mar	+ 32.0 Q4	+11.2	+11.4	114.0	112.7	1.38	1.64	2.18	1.51	1.14	na
United States	−503.7 Feb	−503.4 Q4	− 5.4	− 5.3	107.3	121.1	–	–	1.58	1.09	0.83	-4.6
Euro area	+ 95.5 Jan	+ 53.5 Jan	+ 0.8	+ 0.8	88.1	78.6	0.91	1.12	1.45	–	0.76	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.5 Feb	+ 10.1 Feb	na	na	80.4§	78.2	0.93	1.12	1.47	–	0.77	3.1
Greece	− 22.3 Feb	− 10.8 Feb	na	na	58.7§	57.5	0.93	1.12	1.47	–	0.77	-1.0
Iceland	+ 0.2 Feb	nil Q4	na	na	93.0**	80.4	77.1	94.4	122	84.4	64.0	nil
Ireland	+ 36.1 Jan	− 0.2 Q4	na	na	91.6§	87.2	0.93	1.12	1.47	–	0.77	-0.8
Luxembourg	− 3.0 Jan	+ 1.7 Q4	na	na	101.4§	99.0	0.93	1.12	1.47	–	0.77	0.2
New Zealand	− 0.9 Feb	− 1.9 Q4	na	na	97.3	86.8	1.82	2.24	2.87	1.99	1.51	0.8
Norway	+ 28.1 Mar	+ 27.4 Jan	na	na	101.6	100.5	7.27	8.54	11.5	7.95	6.04	11.3
Portugal	− 12.6 Jan	− 9.2 Jan	na	na	91.3**	89.9	0.93	1.12	1.47	–	0.77	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD forecast. **IMF, November average.

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Top exporters

Apr 24th 2003
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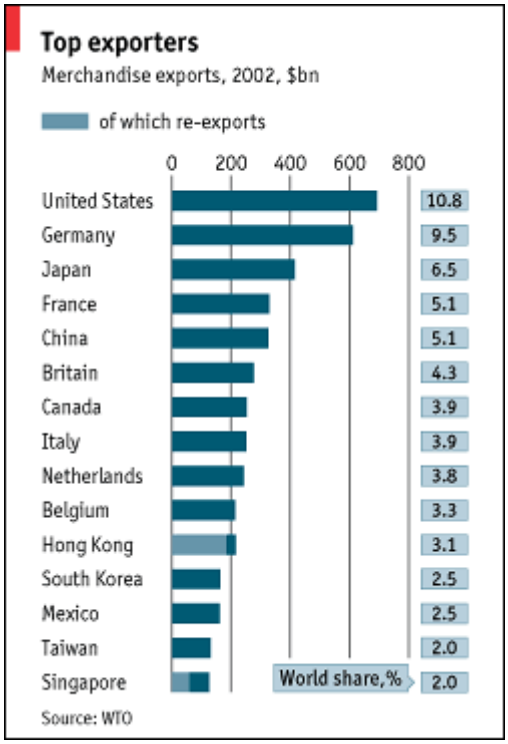

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Overview

Apr 24th 2003
From The Economist print edition

According to official figures (of which many analysts are sceptical), **China's** economy grew by around 9.9% in the year to the first quarter. Driven by sharply increased investments and exports, that growth rate was the strongest reported in six years.

Singapore's 12-month rate of consumer-price inflation edged up to 0.8% in March from 0.4% in February.

In the year to March, industrial output grew by 6.7% in **Russia** and by 5.7% in **Poland**.

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Biggest foreign debtors

Apr 24th 2003
From The Economist print edition

Brazil had the largest foreign debt of any emerging economy in 2001. Although its foreign-debt coverage—its debt-service payments as a percentage of its exports—amounted to 81%, the country has so far avoided default, contrary to the dire predictions of many analysts. Argentina's foreign debt constituted a smaller fraction of its income from exports, yet it defaulted on much of it in early 2002. Russia's foreign debt of $153 billion is easier to manage: its foreign-currency earnings from energy exports help to produce a coverage ratio of 16%. China, another big exporter, has a coverage ratio of only 9%.

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Economy

Apr 24th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q1	+16.9	Mar	+ 0.9	Mar	+22.1	Mar	+17.4	2001	309.2	Jan
Hong Kong	+ 5.0	Q4	– 9.2	Q4	– 2.1	Mar	– 7.9	Feb	+13.8	Q4	113.6	Mar
India	+ 2.6	Q4	+ 6.4	Feb	+ 3.9	Feb	– 8.2	Feb	+ 4.5	Q3	71.1	Mar
Indonesia	+ 3.8	Q4	+ 6.7	Jan	+ 7.1	Mar	+25.6	Feb	+ 7.5	Q3	31.1	Feb
Malaysia	+ 5.6	Q4	– 0.9	Feb	+ 0.7	Mar	+14.3	Feb	+ 7.3	Q4	34.5	Feb
Philippines	+ 5.8	Q4	+ 4.9	Jan	+ 2.9	Mar	+ 0.2	Feb	+ 6.1	Sep	12.9	Mar
Singapore	+ 1.5	Q1	– 1.4	Feb	+ 0.8	Mar	+10.7	Feb	+18.7	Q4	83.5	Mar
South Korea	+ 6.8	Q4	+10.2	Feb	+ 4.5	Mar	+ 7.7	Mar	+ 5.1	Feb	123.8	Mar
Taiwan	+ 4.2	Q4	+ 1.6	Mar	– 0.2	Mar	+16.6	Mar	+25.8	Q4	168.6	Mar
Thailand	+ 6.1	Q4	+12.8	Feb	+ 1.7	Mar	+ 4.8	Feb	+ 8.3	Feb	37.9	Feb
Argentina	– 3.6	Q4	+12.3	Feb	+31.7	Mar	+16.0	Feb	+ 8.9	Q4	10.3	Feb
Brazil	+ 3.4	Q4	+ 2.8	Jan	+16.7	Mar	+16.0	Mar	– 5.5	Feb	38.4	Feb
Chile	+ 3.2	Q4	+ 7.8	Feb	+ 4.5	Mar	+ 2.5	Mar	– 0.6	Q4	16.5	Feb
Colombia	+ 2.0	Q4	+ 5.7	Jan	+ 7.6	Mar	nil	Dec	– 1.6	Q4	10.5	Mar
Mexico	+ 1.9	Q4	+ 1.2	Feb	+ 5.6	Mar	– 6.9	Feb	–14.5	Q4	52.0	Feb
Peru	+ 5.3	Feb	+ 4.2	Feb	+ 3.4	Mar	+ 0.4	Feb	– 1.1	Q4	9.8	Mar
Venezuela	–16.7	Q4	–64.8	Dec	+34.1	Mar	+13.9	Q4	+ 7.6	Q4	8.6	Dec
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 2.9	Jan	– 7.8	Dec	+ 0.5	Q4	13.2	Dec
Israel	+ 1.3	Q4	+ 3.0	Jan	+ 4.8	Mar	– 5.7	Mar	– 2.1	Q4	23.7	Mar
South Africa	+ 3.0	Q4	+ 0.4	Feb	+12.5	Mar	+ 3.9	Feb	+ 0.3	Q4	6.1	Feb
Turkey	+11.4	Q4	+ 4.4	Feb	+29.4	Mar	–16.0	Jan	– 1.5	Jan	27.9	Feb
Czech Republic	+ 1.5	Q4	+ 5.2	Feb	– 0.4	Mar	– 2.6	Mar	– 3.5	Q4	24.7	Mar
Hungary	+ 3.7	Q4	+ 1.6	Feb	+ 4.7	Mar	– 3.6	Feb	– 3.0	Feb	13.6	Mar
Poland	+ 2.1	Q4	+ 5.7	Mar	+ 0.6	Mar	–10.2	Feb	– 6.3	Feb	30.0	Mar
Russia	+ 4.3	Q3	+ 6.7	Mar	+14.8	Mar	+50.2	Feb	+38.3	Q1	51.8	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 2.3	Mar	– 1.5	Mar	+ 2.7	2002†	8.9	Feb
Saudi Arabia	+ 1.2	2001	na		– 0.9	Jan	+39.2	2001	+ 9.4	2001	21.2	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 24th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 23rd		Dec 31st 2002	
	Apr 23rd	year ago	Apr 23rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.1	na	1,613.3	– 4.0	+ 13.7	+ 13.7
Hong Kong	7.80	7.80	12.3	1.64	8,519.6	– 1.8	– 8.6	– 8.6
India	47.3	49.0	74.8	5.06	2,947.3	– 2.8	– 12.7	– 11.5
Indonesia	8,730	9,325	13,810	11.77	447.7	+ 1.1	+ 5.4	+ 8.0
Malaysia	3.80	3.80	6.01	3.10	629.6	– 0.7	– 2.6	– 2.6
Philippines	52.5	50.9	83.1	10.50	1,083.9	– 3.4	+ 6.4	+ 8.2
Singapore	1.78	1.82	2.81	0.69	1,266.1	– 2.0	– 5.6	– 8.0
South Korea	1,219	1,302	1,928	4.57	598.1	– 3.7	– 4.7	– 7.3
Taiwan	34.8	34.8	55.0	1.35	4,564.9	– 1.0	+ 2.5	+ 2.6
Thailand	42.8	43.3	67.7	1.77	375.4	– 2.9	+ 5.3	+ 6.1
Argentina	2.84	3.13	4.49	7.90	670.0	+11.6	+ 27.6	+ 51.4
Brazil	3.03	2.36	4.79	26.32	12,398.7	+ 3.0	+ 10.0	+ 28.7
Chile	713	654	1,128	2.52	5,419.7	+ 2.4	+ 8.0	+ 9.1
Colombia	2,911	2,265	4,605	7.68	1,703.3	+ 0.9	+ 5.9	+ 4.3
Mexico	10.51	9.28	16.6	7.62	6,385.1	+ 1.2	+ 4.2	+ 3.7
Peru	3.46	3.43	5.47	3.84	1,764.1	+ 4.3	+ 26.7	+ 28.8
Venezuela	1,598	850	2,528	27.34	8,418.3	+ 0.1	+ 5.0	– 8.9
Egypt	5.91	4.63	9.35	12.38	6,832.9	– 3.5	+ 27.2	– 0.3
Israel	4.62	4.86	7.31	5.82	386.4§	– 0.1	+ 16.2	+ 19.5
South Africa	7.6	11.0	11.9	13.55	7,748.3	– 1.0	– 16.5	– 5.1
Turkey	1,615,000	1,341,000	2,554,769	42.00	11,405.0**	+ 0.3	+ 10.0	+ 13.0
Czech Republic	29.0	33.9	45.8	2.48	516.5	+ 3.4	+ 12.1	+ 16.4
Hungary	224	270	355	6.50	7,856.8	+ 1.3	+ 0.8	+ 0.9
Poland	3.90	4.04	6.18	5.87	14,342.0	+ 1.6	– 0.2	– 2.0
Russia	31.1	31.2	49.2	18.00	429.4‡	+10.5	+ 16.4	+ 19.6
EMF (MSCI)*	1.00	1.00	1.58	na	294.1	– 0.1	na	+ 0.7
EMBI+†	1.00	1.00	1.58	na	256.6	+ 1.0	na	+ 12.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. §April 21st. **April 22nd

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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